SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55919; File No. SR-CBOE-2007-62)

June 18, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the CBOE's Rules Related to Credit Default Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on June 15, 2007, the Chicago Board Options Exchange, Incorporated ( "Exchange" or "CBOE") 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 prepared substantially by the Exchange. The Exchange has designated the proposed rule change as one constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule under Section 19(b)(3)(A)(i) of the Act[3] and Rule 19b-4(f)(1) thereunder,[4] which renders the proposal effective upon filing with the Commission. 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

The Exchange proposes to amend its rules pertaining to Credit Default Options ("CDOs") in order to: (i) eliminate the requirement that a Market-Maker obtain a separate letter of guarantee to trade CDOs and the requirement that a Floor Broker obtain a separate letter of authorization to trade CDOs; (ii) provide that, for purposes of CDOs, references in the Exchange

---

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 15 U.S.C. 78s(b)(3)(A)(i).

4 17 CFR 240.19b-4(f)(1).

Rules to the "appropriate committee" shall be read to be the "Exchange;" (iii) make certain non-substantive clarifications with respect to the CDO provisions pertaining to Redemption Events; (iv) provide for the exclusion of certain debt securities from the definitions of "Reference Obligation" and "Relevant Obligations" and establish certain minimum threshold amounts for purposes of identifying the occurrence of a "Credit Event;" and (v) modify the provisions pertaining to rights and obligations of CDO holders and writers and certain disclaimers. The text of the proposed rule change is available on the Exchange's Web site (http://www.cboe.org/legal), at the Exchange's principal office, 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 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 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 Exchange recently received approval to list and trade CDOs, which are binary call options based on Credit Events[5] in one or more debt securities of an issuer or guarantor.[6] Before

---

5 A "Credit Event" occurs when a Reference Entity has a Failure-to-Pay Default on, any other Event of Default on, and/or a Restructuring of the Relevant Obligation(s). Failure-to-Pay Defaults, Events of Default, and Restructurings are defined in accordance with the terms of the Relevant Obligation(s). See CBOE Rule 29.1(c) and note 8, infra.

6 See Securities Exchange Act Release No. 55871 (June 6, 2007), 72 FR 32372 (June 12, 2007) (SR-CBOE-2006-84).

the initiation of trading in CDOs, the Exchange wishes to make certain changes to its new Chapter XXIX, which contains the rules applicable to CDOs.

First, the Exchange is eliminating Rule 29.18, Letter of Authorization or Guarantee, which currently requires that: (i) no Market-Maker shall effect any transaction in CDOs unless one or more Letter(s) of Guarantee has been issued by an Exchange Clearing Member and filed with the Exchange accepting financial responsibility for all CDO transactions made by the Market-Maker; and (ii) no Floor Broker shall act as such in respect of CDO contracts unless a Letter of Authorization has been issued by an Exchange Clearing Member and filed with the Exchange. The Exchange is eliminating these requirements because they create a duplicative and unnecessary administrative burden since Market-Makers and Floor Brokers must already submit Letters of Guarantee or Authorization pursuant to Rules 8.5, Letters of Guarantee, and 6.72, Letters of Authorization, as applicable, and CDOs would be subject to such existing Letters.

Second, the Exchange is proposing to adopt new Rule 29.18, Exchange Authority, which will provide that, for purposes of options that are subject to Chapter XXIX, references in the Exchange Rules to the "appropriate committee" shall be read to be to the "Exchange."[7] The Exchange is proposing to make this change because it may determine to assign these authorities with respect to options that are subject to Chapter XXIX, including CDOs, to committees and/or Exchange staff. In making this change, the Exchange will have the flexibility to delegate the authorities under the rules with respect to options that are subject to Chapter XXIX, including

[7] Thus, for example, references to determinations regarding the applicable opening parameter settings established by the "appropriate Procedure Committee" in Exchange Rule 6.2B, Hybrid Opening System ("HOSS"), shall be read to be by the "Exchange."

CDOs, to an appropriate committee or appropriate Exchange staff and will not have to make a rule change merely, for instance, to accommodate the reassignment of any such authority.

Third, the Exchange is making some non-substantive clarifications with respect to the provisions of Rule 29.4, Adjustments, that pertain to Redemption Events.[8] Specifically, the Exchange is substituting the phrase "Redemption Event" for "Redemption" in three locations in subparagraph (a)(2) for grammatical consistency in the rule text. The Exchange is also inserting the phrases "or maturity" in subparagraph (a)(2)(i) and "or matures" in subparagraph (a)(2)(ii) in order to clarify that the definition of a "Redemption Event" includes the redemption or maturity of the Reference Obligation and of all other Relevant Obligations and, if a Reference Obligation is redeemed or matures but other Relevant Obligation(s) remain, a new Reference Obligation would be specified from among the remaining Relevant Obligation(s). The Exchange is also inserting language into this provision that clarifies that the substitution of a new Reference Obligation in these two particular scenarios (i.e., if the Reference Obligation is redeemed or matures but other Relevant Obligation(s) remain) would not be deemed a Redemption Event. These changes to the rule text simply make clear the Exchange's intent with respect to the impact of maturity.

Fourth, the Exchange is proposing to clarify that non-recourse debt is excluded from the definitions of Reference Obligation and Relevant Obligations as set forth in Rule 29.1(c). The Exchange is proposing to exclude non-recourse indebtedness because this type of debt security is

---

8 A "Redemption Event" is defined in accordance with the terms of the Relevant Obligation(s) and includes the redemption of the Reference Obligation and of all other Relevant Obligations. A "Reference Obligation" is a specific debt security of an issuer or guarantor that underlies a CDO. The set of the Reference Obligation and any other debt security obligation(s) of the issuer or guarantor that underlie a CDO are referred to as the "Relevant Obligations." See CBOE Rules 29.1(c) and 29.4(a)(2)(i); see also proposed amendments to Rule 29.1(c) described below.

generally secured by collateral, which is the only asset the holder of debt security may look to for satisfaction to cover the defaulted amount. The Exchange does not intend to list and trade CDOs (and other types of credit products) that are based on non-recourse debt and therefore believes its exclusion from the definitions is appropriate. The Exchange also believes that exclusion of non-recourse debt is consistent with the purpose of CDOs to afford investors protections linked to the Reference Entity's creditworthiness.

In addition, the Exchange is proposing to include a minimum threshold amount for purposes of identifying the occurrence of Failure-to-Pay Defaults, Events of Default, and Restructurings. For a Failure-to-Pay Default, the minimum failure-to-pay amount, whether individually or in the aggregate, shall be the greater of $750,000 or the amount specified in the terms of the Relevant Obligation(s). This provision would override any contradictory provision in the terms of the Relevant Obligation(s) terms regarding the minimum amount of non-payment that triggers a Failure-to-Pay Default. For an Event of Default or Restructuring, the default or restructuring (as applicable) must relate to a principal amount of the Relevant Obligation(s), whether individually or in the aggregate, that is the greater of $7.5 million or the amount specified in the terms of the Relevant Obligation(s). These provisions would override any contradictory provisions in the terms of the Relevant Obligation(s) regarding the minimum principal amount necessary to trigger an Event of Default or Restructuring. The Exchange believes that establishing these minimum threshold amounts is appropriate and will assist in the administration of the Credit Event confirmation process. These minimum threshold amounts are designed to ensure that a de minimis failure-to-pay, default, or restructuring will not trigger a Credit Event and, thus, the Exchange believes they are in keeping with the purpose of CDOs to afford investors protections linked to the Reference Entity's creditworthiness.

Finally, the Exchange is proposing to modify Rule 29.10, Rights and Obligations of Holders and Sellers, to change the title of the rule to Disclaimers, remove certain redundancies, and replace the disclaimer provision contained in the text with a provision that is more consistent with other existing Exchange rules. Specifically with respect to redundancies, the Exchange is proposing to delete paragraph (a) of the rule, which currently provides that, subject to certain other Exchange rules, the rights and obligations of holders and sellers of CDOs dealt in on the Exchange shall be set forth in the By-Laws and Rules of The Options Clearing Corporation ("OCC"). This language is duplicative considering Rule 5.2, Rights and Obligations of Holders and Sellers, contains substantively similar language. Paragraph (a) also currently provides that Rules 11.1, Exercise of Option Contracts, and 11.2, Allocation of Exercise Notices, are not applicable to CDOs. The Exchange is proposing to delete this language because it is duplicative considering Rule 29.9, Determination of Credit Event, Automatic Exercise and Settlement.[9] With respect to disclaimers, the Exchange is proposing to delete paragraph (b) of the rule, which currently contains disclaimer language limiting the Exchange's liability.[10] This provision would

---

9 The reference at the end of Rule 29.9 currently provides that, for purpose of Chapter XXIX, Rule 29.9 replaces Rule 11.1. The Exchange is also proposing to amend this reference to make it clear that Rule 11.2 is not applicable to CDOs.

10 Specifically, existing Rule 29.10(b) currently provides that, "[t]he Exchange shall have no liability for damages, claims, losses or expenses caused by any errors, omissions or delays in confirming or disseminating notice of any Credit Event resulting from a negligent act or omission by the Exchange or any act, condition or cause beyond the reasonable control of the Exchange, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; any error, omission or delay in the reports of transactions in one or more underlying securities."

be replaced with disclaimer language[11] that the Exchange believes is more consistent with its other disclaimer rules relating to reporting authorities, including Rule 24.14, Disclaimers.

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 national securities exchanges. Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5) of the Act,[12] which requires that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to 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 not necessary or appropriate in furtherance of the purposes of the Act.

---

11 Revised Rule 29.10 would provide that, "The term 'reporting authority' as used in this rule refers to the Exchange or any other entity identified by the Exchange as the 'reporting authority' in respect of a class of [CDOs] for purposes of the By-Laws and Rules of [OCC] and any affiliate of the Exchange or any such other entity. No reporting authority makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of any [CDO]. Any reporting authority hereby disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any [CDO]. Any reporting authority shall have no liability for any damages, claims, losses (including any indirect or consequential losses), expenses or delays, whether direct or indirect, foreseen or unforeseen, suffered by any person relating to any [CDO], including without limitation as a result of any error, omission or delay in confirming, or disseminating notice of, any Credit Event, any determination to adjust or not to adjust the terms of outstanding [CDOs], or any other determination with respect to [CDOs] for which it has responsibility under the By-Laws and Rules of [OCC]."

12 15 U.S.C. 78f(b)(5).

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

The Exchange neither solicited nor received comments on the proposal.

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

Because the foregoing rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule, it has become effective pursuant to Section 19(b)(3)(A)(i) of the Act[13] and Rule 19b-4(f)(1) thereunder.[14] At any time within 60 days of the filing of the 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.

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. Please include File Number SR-CBOE-2007-62 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.

---

13 15 U.S.C. 78s(b)(3)(A)(i).

14 17 CFR 240.19b-4(f)(1).

All submissions should refer to File Number SR-CBOE-2007-62. 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 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-2007-62 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.[15]

Florence E. Harmon
Deputy Secretary

[15] 17 CFR 200.30-3(a)(12).