SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56903; File No. SR-CBOE-2007-68)

December 5, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving Proposed Rule Change, as Modified by Amendment No. 1, Relating to Stock-Option Orders

I. Introduction

On June 20, 2007, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] a proposal to amend its rules to provide for the electronic handling and execution of stock-option orders. The CBOE filed Amendment No. 1 to the proposal on October 19, 2007.[3] The proposed rule change, as modified by Amendment No. 1, was published for comment in the Federal Register on October 31, 2007.[4] The Commission received no comments regarding the proposed rule change, as amended. This order approves the proposed rule change, as modified by Amendment No. 1.

II. Description of the Proposal

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

2 17 CFR 240.19b-4.

3 Amendment No. 1 replaces the original filing in its entirety.

4 See Securities Exchange Act Release No. 56701 (October 25, 2007), 72 FR 61694.

Currently, stock-option orders[5] are handled manually on the CBOE and the options component is traded in open outcry. The CBOE proposes to amend CBOE Rule 6.53C, "Complex Orders on the Hybrid System," to allow stock-option orders to be submitted to the Complex Order Book ("COB") or executed via a Complex Order Auction ("COA").[6] The stock component of a stock-option order will be executed electronically on the CBOE's electronic stock trading facility, the CBOE Stock Exchange ("CBSX"), consistent with CBSX's order execution rules.[7] A stock-option order will not be executed on the CBOE's Hybrid System unless the stock leg is executable on CBSX at the price(s) necessary to achieve the desired net price.[8]

An electronic stock-option order accepted by the Hybrid System will be auctioned in a COA when the requirements for an auction are met. An unexecuted stock-option order also could be maintained in the COB or on a PAR workstation, either of which would monitor the marketability of the order, taking into account the CBSX market for the execution of the stock component of the order.

Under the proposal, the CBOE proposes to process stock-option orders in a manner that is substantially similar to the way that the CBOE currently processes complex orders comprised

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5 A stock-option order is an order to buy or sell a stated number of units of an underlying or a related security coupled with either (a) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of the underlying or related security or the number of units of the underlying security necessary to create a delta neutral position or (b) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date and each representing the same number of units of stock as, and on the opposite side of the market from, the underlying security or related security portion of the order. See CBOE Rule 1.1(ii) and CBOE Rule 6.53C(a)(10).

6 See CBOE Rule 6.53C, Commentary .06 (c) and (d).

7 See CBOE Rule 6.53C, Commentary .06(a).

8 See CBOE Rule 6.53C, Commentary .06(a).

solely of options. However, a stock-option order submitted to the COB would seek to trade first against other stock-option orders in the COB, and second against individual orders or quotes on the CBOE.[9] Similarly, a stock-option order submitted to a COA would trade in the sequence set forth in CBOE Rule 6.53C(d)(v)(1)-(4), except that subparagraph (d)(v)(1), relating to individual orders and quotes residing in the EBook, would be applied last in sequence.[10] The CBOE believes that because a portion of a stock-option order would be executed on a different platform (CBSX), it is more practical to execute resting stock-option orders against other stock-option orders received by the Hybrid System before scanning for executions against the legs on the CBSX book and the Hybrid options book.

The options leg of a stock-option order will not trade ahead of any public customer option resting on the Hybrid book. Specifically, the options leg of a stock-option order will not be executed on the Hybrid System at the CBOE's best bid (offer) in a series if one or more public customer orders are resting on the electronic book at that price, unless the options leg trades with such public customer order(s).[11] Accordingly, the CBOE notes that the proposal is consistent with CBOE Rule 6.45A(b)(iii), which provides the options leg of a stock-option order with priority over bids (offers) in the trading crowd at the same price, but not over public customer bids (offers) in the limit order book at the same price.[12]

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9 See CBOE Rule 6.53C, Commentary .06(c). In contrast, a complex order comprised solely of options would seek to execute first against orders and quotes in the EBook, if possible, and then against other complex orders in the COB. See CBOE Rule 6.53C(c)(ii).

10 See CBOE Rule 6.53C, Commentary .06(d).

11 See CBOE Rule 6.53C, Commentary .06(b).

12 The CBOE provides the following example to illustrate how the Hybrid System would protect the priority of a resting public customer options order: a customer enters a stock-option order to buy 100 shares of XYZ (trading at around $40) and sell a 45 call with a net price of $39.00. A public customer order to sell the 45 call for $1 is resting on the

III. Discussion

After careful review, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.[13] In particular, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,[14] which requires, among other things, that the rules of a national securities exchange be designed 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 a national market system, and, in general, to protect investors and the public interest.

The Commission believes that the proposal could facilitate the execution of stock-option orders on the CBOE by providing for the electronic handling and execution of these orders, which currently must be handled manually. The Commission notes that proposal provides for the execution of stock-option orders in a manner that is consistent with the CBOE's existing priority rules for stock-option orders, which provide the options leg of a stock-option order with priority over bids (offers) in the trading crowd at the same price, but not over public customer

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Hybrid book. When executing the stock-option order against auction responses, the Hybrid System will not allow the options leg of the transaction to trade at $1 or higher, thereby preserving the resting limit order's priority at that price. An execution could occur where the options leg prints at $0.99 and the stock trade prints at $39.99, in accordance with CBSX priority rules. This execution would meet the stock-option order's limit price and would not violate priority on CBOE or CBSX.

13 In approving the proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

14 15 U.S.C. 78f(b)(5).

bids (offers) at the same price.[15] In addition, the execution of the stock component of a stock-option order on CBSX will be consistent with CBSX's order execution rules.[16]

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[17] that the proposed rule change (SR-CBOE-2007-68), as modified by Amendment No. 1, is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[18]

Florence E. Harmon
Deputy Secretary

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15 See CBOE Rule 6.45A(b)(iii).

16 See CBOE Rule 6.53C, Commentary .06(a).

17 15 U.S.C. 78s(b)(2).

18 17 CFR 200.30-3(a)(12).