

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54014; File No. SR-CBOE-2006-01)

June 19, 2006

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of Proposed Rule Change and Amendment No.1 Thereto Regarding a Disaster Recovery Facility

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 January 3, 2006, the Chicago Board Options Exchange, Incorporated (“CBOE” or “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 prepared by the CBOE. On June 2, 2006, the Exchange submitted Amendment No. 1 to the proposed rule change.³ 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 proposed rule change regarding the operation of a remote business facility in order to preserve the Exchange’s ability to trade options in the event the Exchange’s trading floor becomes inoperable or otherwise unavailable.

The text of the proposed rule change is available on CBOE’s Web site (www.cboe.com), at the CBOE’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 In Amendment No. 1, CBOE made minor revisions to the proposed rule text and clarified certain details of its proposal.

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 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 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 adopt new Exchange Rule 6.18, which would allow for the operation of the DRF. The DRF would only be used in the event a disaster or other unusual circumstance renders the CBOE trading floor inoperable. The purpose of the DRF is to allow CBOE members to operate remotely in a screen-based only environment until the Exchange's trading floor is again available. There would be no open-outcry trading at the DRF. CBOE's Hybrid trading platform would be used for trading through the DRF minus the open-outcry component of the Hybrid platform. Thus, electronic orders would continue to be received by the Exchange and processed and/or executed in the manner they would be handled by the Hybrid System today.

CBOE would announce prior to the commencement of trading on the DRF all classes that would be traded on the DRF. Priority would be afforded to classes that are exclusively listed on CBOE. All classes traded via the DRF would be subject to all applicable Hybrid System rules relating to the electronic component of Hybrid trading and non-trading rules of the Exchange

would continue to be applicable. The Exchange represents that those rules in their current form will enable the operation of the DRF. The Exchange also represents that it is able to conduct appropriate surveillance for trading activity on the DRF and that procedures are in place to conduct appropriate surveillance (a document detailing such procedures will be forwarded to the Commission for review under separate cover).

As mentioned above, rules governing the general use of the DRF would be contained in proposed Exchange Rule 6.18. That rule provides, among other things, that members shall take such action as instructed by the Exchange to accommodate the Exchange's ability to trade options via the DRF. The Exchange is currently working with members to establish appropriate connectivity to the DRF. As part of this process, members electing to establish connectivity to the DRF must test with the Exchange to ensure the connection to the DRF is functional. Connectivity procedures are available to all interested members. The Exchange represents that there is already sufficient member connectivity to ensure that the DRF, if activated, could operate in a meaningful manner.

Exchange Rule 6.18 also provides that, to the extent system capacity restricts the ability of all members from quoting on the DRF, the Exchange shall have authority to designate the members that will be allowed to submit quotations on the DRF (all members would still be able to send in orders to the DRF). In such cases, priority shall be afforded to members that made markets in the products trading on the DRF throughout the calendar quarter preceding the use of the DRF. Additional members and/or member organizations shall be allowed to make markets on the DRF based upon their total contract volume effected on the Exchange during the preceding calendar quarter. Unless otherwise authorized by the Exchange, there would be a one

streaming quotation per product limit for each member organization quoting on the system and its associated persons.

Lastly, this Exchange Rule 6.18 does not preclude the Exchange from trading options, in the event the trading floor is rendered inoperable, pursuant to Exchange Rule 6.16 (Back-up Trading Arrangements).

2. Statutory Basis

The Exchange believes the proposed rule change, as amended, is consistent with the Securities Exchange Act of 1934 (the “Act”)⁴ and the rules and regulations under the Act applicable to a national securities exchange and, in particular, the requirements of Section 6(b) of the Act.⁵ Specifically, the Exchange believes the proposed rule change, as amended, is consistent with Section 6(b)(1)⁶ in that it will allow the Exchange the capacity to carry out the purposes of the Act (by allowing the Exchange to continue trading if the trading floor becomes inoperable). The proposed rule change, as amended, is also consistent with Section 6(b)(5)⁷ requirements that the rules of an exchange be designed to promote just and equitable principles of trade, and to protect investors and the public interest.

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

The Exchange does not believe that the proposed rule change, as amended, would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

⁴ 15 U.S.C. 78a et seq.

⁵ 15 U.S.C. 78(f)(b).

⁶ 15 U.S.C. 78(f)(b)(1).

⁷ 15 U.S.C. 78(f)(b)(5).

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 CBOE 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 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-2006-01 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-CBOE-2006-01. 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

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 publicly available. All submissions should refer to File Number SR-CBOE-2006-01 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.⁸

Nancy M. Morris
Secretary

⁸ 17 CFR 200.30-3(a)(12).