

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54067; File No. SR-CBOE-2006-57)

June 29, 2006

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend CBOE Rule 8.7 Relating to Bid/Ask Differentials

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 June 21, 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 Exchange. The CBOE has filed this proposal pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) 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 CBOE Rule 8.7, “Obligations of Market-Makers,” relating to bid/ask differentials in Hybrid and Hybrid 2.0 classes. The text of the proposed rule change appears below. Additions are underlined.

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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).

Chicago Board Options Exchange, Incorporated
Rules

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Rule 8.7 – Obligations of Market-Makers

Rule 8.7. (a) No change.

(b) No change.

(i) – (iii) No change.

(iv) To price options contracts fairly by, among other things, bidding and/or offering in the following manner:

(A) No change.

(B) No change.

(C) Option Classes Trading on the Hybrid Trading System and Hybrid 2.0 Platform. Except as provided in subparagraphs (i) and (ii) below, option classes trading on the Hybrid Trading System and the Hybrid 2.0 Platform may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The provisions of Rule 8.7(b)(iv)(A) shall apply to any quotes given in open outcry in Hybrid classes and Hybrid 2.0 classes.

i. The \$5 bid/ask differential stated in subparagraph (C) above shall not apply to at-the-money series or in-the-money series where the quote width on the primary market of the underlying security, or the quote width calculated by the Exchange or its agent for various indices pursuant to Interpretation .08, is wider than \$5. For these series, the bid/ask differential may be as wide as the quote width on the primary market of the underlying security or calculated by the Exchange or its agent, as applicable. For purposes of this subparagraph (C)(i),

“in-the-money series” are defined as follows: for call options, all strike prices below the offer or last sale in the underlying security (whichever is higher); and for put options, all strike prices above the bid or last sale in the underlying security (whichever is lower); and

ii. No change.

(c) – (e) No change.

. . . Interpretations and Policies:

.01 – .13 No change

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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 CBOE proposes to amend CBOE Rule 8.7(b)(iv)(C)(i) relating to bid/ask differentials in the Hybrid Trading System and Hybrid 2.0 Platform classes. Specifically, the CBOE proposes to revise the text of CBOE Rule 8.7(b)(iv)(C)(i) to include an interpretation of the meaning of “in-the-money” series and to include “at-the-money” series within the provisions of that paragraph.

Recently, the CBOE amended its Rule 8.7 to provide, among other things, an exception to the general requirement that option classes trading on the Hybrid Trading System and the Hybrid 2.0 Platform may be quoted electronically with bid/ask differentials not to exceed \$5 between the bid and offer regardless of the price of the bid.⁵ One exception to this general requirement is that the \$5 bid/ask differential does not apply to in-the-money series where the quote width on the primary market of the underlying security, or the quote width calculated by the Exchange or its agent for various indices pursuant to Interpretation .08 of CBOE Rule 8.7, is wider than \$5. For these in-the-money series, the bid/ask differential may be as wide as the quote width on the primary market of the underlying security or the quote width calculated by the Exchange or its agent, as applicable.

The CBOE proposes to include in the text of CBOE Rule 8.7(b)(iv)(C)(i) an interpretation of the meaning of “in-the-money” series. The Exchange proposes that, for call options, “in-the-money” series include all strike prices below the offer or last sale in the underlying security, whichever is higher, and for put options, “in-the-money” series include all strike prices at or above the bid or last sale in the underlying security, whichever is lower. The CBOE believes that its proposed interpretation is consistent with the definition of “in-the-money” series included in the Options Disclosure Document (“ODD”), “Characteristics and Risks of Standardized Options.”⁶

⁵ See Securities Exchange Act Release No. 53229 (February 6, 2006), 71 FR 7095 (February 10, 2006) (notice of filing and immediate effectiveness of File No. SR-CBOE-2006-12).

⁶ In the ODD, “in-the-money” series are defined as: “A call option is said to be in the money if the current market value of the underlying interest is above the exercise price of the option. A put option is said to be in the money if the current market value of the underlying interest is below the exercise price of the option.”

The CBOE also proposes to amend paragraph (b)(iv)(C)(i) of CBOE Rule 8.7 to state that the \$5 bid/ask differential also will not apply to at-the-money series where the quote width on the primary market of the underlying security, or the quote width calculated by the Exchange or its agent for various indices pursuant to Interpretation .08 of CBOE Rule 8.7, is wider than \$5. The Exchange proposes that, for these at-the-money series, the bid/ask differential may be as wide as the quote width on the primary market of the underlying security or the quote width calculated by the Exchange or its agent, as applicable.

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, 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 under Section 6(b)(5) of the Act⁸ that the rules of a national securities 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

The 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 solicited nor received comments on the proposal.

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

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

The Exchange has designated the proposed rule change as one that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) does not become operative for 30 days from the date of filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. In addition, as required under Rule 19b-4(f)(6)(iii),⁹ the CBOE provided the Commission with written notice of its intention to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to filing the proposal with the Commission. Therefore, the foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁰ and Rule 19b-4(f)(6) thereunder.¹¹

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate the 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:

⁹ 17 CFR 240.19b-4(f)(6)(iii).

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f)(6).

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-2006-57 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 No. SR-CBOE-2006-57. 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 the 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 available publicly. All submissions should refer to File No. SR-CBOE-2006-57 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.¹²

Nancy M. Morris
Secretary

¹² 17 CFR 200.30-3(a)(12).