

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-54236; File No. SR-CBOE-2006-68)

July 28, 2006

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to its Marketing Fee Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 18, 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. CBOE has designated this proposal as one establishing or changing a due, fee, or other charge imposed by CBOE under Section 19(b)(3)(A)(ii) of the Act<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> 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

CBOE proposes to amend its marketing fee program. Below is the text of the proposed rule change. Proposed new language is underlined; deleted language is in [brackets].

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>4</sup> 17 CFR 240.19b-4(f)(2).

**CHICAGO BOARD OPTIONS EXCHANGE, INC.**

**FEES SCHEDULE**

**[JUNE 30]JULY 18, 2006**

1. No Change.
2. **MARKETING FEE (6)(16)**.....\$.65
3. – 4. No Change.

**FOOTNOTES:**

(1) – (5) No Change.

(6) The Marketing Fee will be assessed only on transactions of Market-Makers, RMMs, e-DPMs, DPMs, and LMMs resulting from orders for less than 1,000 contracts (i) from payment accepting firms, or (ii) that have designated a “Preferred Market-Maker” under CBOE Rule 8.13 at the rate of \$.65 per contract on all classes of equity options, options on HOLDRs, options on SPDRs, options on DIA, options on NDX, and options on RUT. The fee will not apply to: Market-Maker-to-Market-Maker transactions including transactions resulting from orders from non-member market-makers; transactions resulting from inbound P/A orders or a transaction resulting from the execution of an order against the DPM’s account if an order directly related to that order is represented and executed through the Linkage Plan using the DPM’s account; transactions resulting from accommodation liquidations (cabinet trades); and transactions resulting from dividend strategies, merger strategies, and short stock interest strategies as defined in footnote 13 of this Fees Schedule. This fee shall not apply to index options and options on ETFs (other than options on SPDRs, options on

DIA, options on NDX, and options on RUT). A Preferred Market-Maker will only be given access to the marketing fee funds generated from a Preferred order if the Preferred Market-Maker has an appointment in the class in which the Preferred order is received and executed.

[DPM/LMM] Rebate/Carryover Process. If less than 80% of the marketing fee funds collected in a given month [are]is paid out by the DPM/LMM or Preferred Market-Maker in a given month, then the Exchange would refund such surplus at the end of the month on a pro rata basis based upon contributions made by the Market-Makers, RMMs, e-DPMs, DPMs and LMMs in that month. However, if 80% or more of the funds collected in a given month [are]is paid out by the DPM/LMM or Preferred Market-Maker, there will not be a rebate for that month and the excess funds will be included in an Excess Pool of funds to be used by the DPM/LMM or Preferred Market-Maker in subsequent months. The total balance of the Excess Pool of funds for a DPM/LMM cannot exceed \$25,000, and the total balance of the Excess Pool of funds for a Preferred Market-Maker cannot exceed \$80,000. [i]If in any month the DPM/LMM Excess Pool balance were to exceed \$25,000, or the Preferred Market-Maker Excess Pool balance were to exceed \$80,000, the funds in excess of \$25,000 or \$80,000, respectively, would be refunded on a pro rata basis based upon contributions made by the Market-Makers, RMMs, DPMs, e-DPMs and LMMs in that month.

[Preferred Market-Maker Rebate/Carryover Process. If less than 80% of the marketing fee funds are paid out by the Preferred Market-Maker in a given month, then the Exchange would refund such surplus at the end of the month on a pro rata

basis based upon contributions made by the Market-Makers, RMMs, e-DPMs, DPMs and LMMs in that month. However, if 80% or more of the accumulated funds in a given month are paid out by the Preferred Market-Maker, there will not be a rebate for that month and the funds will carry over and will be included in the pool of funds to be used by the Preferred Market-Maker the following month. At the end of each quarter, the Exchange would then refund any surplus, if any, on a pro rata basis based upon contributions made by the Market-Makers, RMMs, DPMs, e-DPMs and LMMs in the final month of the quarter.] CBOE's marketing fee program as described above will be in effect until June 2, 2007.

Remainder of Fees Schedule – No change.

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. CBOE 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

CBOE recently amended its marketing fee to modify the manner in which marketing fee funds collected during a calendar quarter are refunded.<sup>5</sup> Specifically, with respect to DPMs and LMMs, CBOE amended the marketing fee to provide that, if less than 80% of the marketing fee

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<sup>5</sup> See Securities Exchange Act Release No. 54153 (July 14, 2006), 71 FR 41485 (July 21, 2006) (SR-CBOE-2006-63).

funds collected in a given month is paid out by the DPM/LMM, then CBOE will refund such surplus at the end of the month on a pro rata basis based upon contributions made by the Market-Makers, RMMs, e-DPMs, DPMs, and LMMs in that month. However, if 80% or more of the funds collected in a given month is paid out by the DPM/LMM, there will not be a rebate for that month and the excess funds will be included in an Excess Pool of funds to be used by the DPM/LMM in subsequent months. The total balance of the Excess Pool of funds cannot exceed \$25,000 and, if in any month the balance exceeded \$25,000, the funds in excess of \$25,000 would be refunded on a pro rata basis based upon contributions made by the Market-Makers, RMMs, DPMs, e-DPMs, and LMMs in that month.

CBOE now proposes to amend the marketing fee as it relates to the rebate process for Preferred Market-Makers by making the rebate process identical to the rebate process for DPMs and LMMs, with one exception. Specifically, CBOE proposes to cap the Excess Pool of funds for Preferred Market-Makers at \$80,000, rather than the \$25,000 cap for DPMs/LMMs. CBOE believes that having a higher limit on the Excess Pool of funds for Preferred Market-Makers is reasonable given that the total amount of marketing fee funds made available to and used by Preferred Market-Makers to pay for order flow on a monthly basis generally is significantly higher than the amount of marketing fee funds made available to and used by DPMs/LMMs to pay for order flow. Thus, CBOE believes that it is appropriate to allow a Preferred Market-Maker to potentially carry over more funds than a DPM/LMM on a monthly basis, up to the limit on the Preferred Market-Maker Excess Pool. CBOE notes that, like DPMs/LMMs, Preferred Market-Makers would have to expend 80% or more of the marketing fee funds collected in a given month in order for any excess funds not used to pay for order flow to be included in an Excess Pool.

CBOE states that it is not amending its marketing fee program in any other respects.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>6</sup> in general, and furthers the objectives of Section 6(b)(4) of the Act,<sup>7</sup> in particular, in that it is designed to provide for the equitable allocation of reasonable dues, fees, and other charges among CBOE members.

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

The Exchange 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.

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

The foregoing proposed rule change has been designated as a fee change pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>8</sup> and Rule 19b-4(f)(2)<sup>9</sup> thereunder, because it establishes or changes a due, fee, or other charge imposed by the Exchange. Accordingly, the proposal will take effect upon filing with the Commission. At any time within 60 days of the filing of such 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.

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<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(4).

<sup>8</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>9</sup> 17 CFR 240.19b-4(f)(2).

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2006-68 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-2006-68. 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-2006-68 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.<sup>10</sup>

Nancy M. Morris  
Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).