

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-55174; File No. SR-CBOE-2007-07)

January 25, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Extend the Duration of the SizeQuote Mechanism Pilot

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 17, 2007, the Chicago Board Options Exchange, Incorporated ( “Exchange” or “CBOE”) filed with the Securities and Exchange Commission (the “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 filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder,<sup>4</sup> which renders the proposal effective upon filing with the Commission.<sup>5</sup> 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 extend the pilot in CBOE Rule 6.74(f) pertaining to the SizeQuote Mechanism, which is a process by which a Floor Broker may execute and facilitate large-sized orders in open outcry. The Exchange is proposing to extend the pilot program, which would otherwise expire on February 15, 2007, through February 15, 2008. No other changes are

---

<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)(iii).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

<sup>5</sup> CBOE gave the Commission written notice of its intention to file the proposed rule change on January 10, 2007. See Rule 19b-4(f)(6)(iii). 17 CFR 240.19b-4(f)(6)(iii).

being made to the pilot program through this rule filing.<sup>6</sup> The text of the proposed rule change is available at [www.cboe.org/Legal](http://www.cboe.org/Legal), at the Exchange, 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

CBOE Rule 6.74(f), which relates to the open outcry "SizeQuote" Mechanism, was approved on a pilot basis in February 2005 and was expanded to include solicited orders in January 2006.<sup>7</sup> The pilot program has been extended once and is currently set to expire on

---

<sup>6</sup> A separate rule change proposal has been filed and is currently pending with the Commission that would make amendments to the SizeQuote Mechanism. See SR-CBOE-2005-115 (proposal to modify the pilot program in various respects, including to permit a Floor Broker to execute the entire SizeQuote Order at a price at least one trading increment better than the best price communicated by the in-crowd market participants ("ICMPs") in their responses to the SizeQuote request).

<sup>7</sup> See Securities Exchange Act Release Nos. 51205 (February 15, 2005), 70 FR 8647 (February 22, 2005)(approving SR-CBOE-2004-72 on a pilot basis through February 15, 2006) and 53135 (January 17, 2006), 71 FR 3908 (January 24, 2006)(approving SR-CBOE-2005-83, which modified the pilot program to enable a Floor Broker to execute a SizeQuote Order with either a firm facilitation order, one or more solicited orders, or a combination of the Floor Broker's facilitation order and such solicited order(s)).

February 15, 2007.<sup>8</sup> The pilot program provides a process by which a Floor Broker, using his/her exercise of due diligence to execute orders at the best price(s), may execute and facilitate large-sized orders in open outcry. Under the pilot program, the ICMPs have priority to trade a SizeQuote Order at the best price communicated by the ICMPs in their response to a Floor Broker's SizeQuote request and at one increment better, while a Floor Broker can execute the entire SizeQuote Order with a facilitation order, one or more solicited orders, or a combination of solicited and facilitation orders at a price two trading increments better than the best price provided by the ICMPs in their response to the SizeQuote request. For purposes of the pilot program, the minimum qualifying order size is 250 contracts<sup>9</sup> and Floor Brokers must stand ready to facilitate the entire size of the order for which they request SizeQuotes.

The instant rule change seeks to extend the existing pilot program, which would otherwise expire on February 15, 2007, through February 15, 2008. The Exchange notes that, as part of the original pilot program approval order and subsequent filing to extend the pilot program,<sup>10</sup> the Exchange represented that it would provide the Commission a report at the end of the pilot period summarizing the effectiveness of the SizeQuote program. In that regard, though the SizeQuote Mechanism has been made available during the pilot period in all equity option classes traded on the Exchange for orders of 250 contracts or more, the Exchange's continued experience has been that Floor Brokers have not generally availed themselves of the SizeQuote

---

<sup>8</sup> See Securities Exchange Act Release No. 53252 (February 8, 2006), 71 FR 8012 (February 15, 2006)(immediately effective proposal, SR-CBOE-2006-05, extending the pilot program from February 15, 2006 to February 15, 2007).

<sup>9</sup> The appropriate Exchange committee determines the classes in which SizeQuote operates and may vary the minimum qualifying order size, provided that such number may not be less than 250 contracts.

<sup>10</sup> See notes 7 and 8, supra.

Mechanism to facilitate large-sized orders.<sup>11</sup> However, the Exchange continues to believe that the SizeQuote Mechanism enhances ICMPs' ability and incentive to quote competitively and participate in open outcry trades while at the same time creates a process that gives greater certainty to Floor Brokers in the execution of large orders in that ICMPs only have one opportunity to respond with a quote response (which further enhances an ICMP's incentive to quote competitively). The Exchange is therefore seeking to extend the existing pilot program for another year through February 15, 2008 in order to continue its evaluation of the utility of the SizeQuote Mechanism.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act<sup>12</sup> in general and furthers the objectives of Section 6(b)(5) of the Act<sup>13</sup> in particular in that it is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and 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 that is not necessary or appropriate in furtherance of the purposes of the Act.

---

<sup>11</sup> The Exchange believes the SizeQuote Mechanism has not been actively utilized due to some of the limitations and risks inherent in the original design of the pilot program. Thus, CBOE expanded the pilot program to include solicited orders. Originally the pilot program only applied to facilitation orders. See note 7, *supra*. CBOE has also proposed to modify the pilot program in various other respects. See note 6, *supra*.

<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 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 does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, provided that the self-regulatory organization has given the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change or such shorter time as designated by the Commission, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>14</sup> and Rule 19b-4(f)(6) thereunder.<sup>15</sup>

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.

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

---

<sup>14</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>15</sup> 17 CFR 240.19b-4(f)(6).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2007-07 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-2007-07. 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 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-2007-07 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>16</sup>

Florence E. Harmon  
Deputy Secretary

---

<sup>16</sup> 17 CFR 200.30-3(a)(12).