

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-55926; File No. SR-CBOE-2007-61)

June 20, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Extension of the iShares Russell 2000 Index Fund (IWM) Option Pilot Program until January 18, 2008

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 June 12, 2007, 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 substantially prepared by the Exchange. The Exchange filed the proposed rule change as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)<sup>3</sup> of the Act and Rule 19b-4(f)(6) 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 extend an existing pilot program that increases the position and exercise limits for options on the iShares Russell 2000 Index Fund (“IWM options”) traded on the Exchange (“IWM Option Pilot Program”). The text of the rule proposal is available on the Exchange’s Web site (<http://www.cboe.org/legal>), at the Exchange’s principal office, and at the Commission’s Public Reference Room.

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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).

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

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

The purpose of the proposed rule change is to extend the IWM Option Pilot Program for an additional six-month period, through January 18, 2008,<sup>5</sup> and to make non-substantive changes to simplify the rule text describing the IWM Option Pilot Program. The IWM Option Pilot Program increases the position and exercise limits for IWM options traded on the Exchange.<sup>6</sup> The Exchange is not proposing any other changes to the IWM Option Pilot Program. The Exchange represents that it has not encountered any problems or difficulties relating to the IWM Option Pilot Program since its inception.

The proposal that established the IWM Option Pilot Program was designated by the Commission to be effective and operative upon filing and provided that it would run from January 22, 2007 through July 22, 2007.<sup>7</sup> In that filing, the Exchange explained that in June

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<sup>5</sup> January 18, 2008 is the third Friday of the month (or expiration Friday), which is the day on which January 2008 IWM options will expire.

<sup>6</sup> Exercise limits for IWM options are equivalent to the position limits prescribed for IWM options in Rule 4.11.07 and the increased exercise limits are only in effect during the IWM Option Pilot Period. See Rule 4.12.02.

<sup>7</sup> See Securities Exchange Act Release No. 55176 (January 25, 2007), 72 FR 4741 (February 1, 2007).

2005, as a result of a 2-for-1 stock split, the position limit for IWM options was temporarily increased from 250,000 contracts (covering 25,000,000 IWM shares) to 500,000 contracts (covering 50,000,000 IWM shares). At the time of the split, the furthest IWM option expiration date was January 2007. Therefore, the temporary position limit increase was scheduled to automatically revert to the pre-split level (as provided for in connection with the Rule 4.11 Pilot Program) of 25,000 contracts after expiration in January 2007.

As the Exchange described in the proposal that established the IWM Option Pilot Program, the Exchange believes that a position limit of 250,000 option contracts would prevent traders from adequately hedging their options positions, thereby impairing their ability to provide liquidity. Specifically, the Exchange stated that IWM options are 1/10<sup>th</sup> the size of options on the Russell 2000 Index (“RUT”), which have a position limit of 50,000 contracts.<sup>8</sup> Therefore, traders who trade IWM options to hedge positions in RUT options are likely to find a position limit of 250,000 contracts in IWM options too restrictive and insufficient to properly hedge. For example, if a trader held 50,000 RUT options and wanted to hedge that position with IWM options, the trader would need, at a minimum, 500,000 IWM options to properly hedge the position. The Exchange additionally notes that index options on 1/10<sup>th</sup> the RUT have a position limit of 500,000 contracts, which is consistent with and corresponds to the increased position limits permitted under the IWM Option Position Limit Pilot.<sup>9</sup> Therefore, the Exchange continues to believe that a position limit of 250,000 contracts is too low and may adversely affect market participants' ability to provide liquidity in this product.

As the Exchange also described in the proposal that established the IWM Option Pilot Program, IWM options have grown to become one of the largest options contracts in terms of

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<sup>8</sup> See Rule 24.4(a).

trading volume. For example, through May 29, 2007, year-to-date industry volume in IWM options has averaged over 460,000 contracts per day, for a total of over 61 million contracts. CBOE alone has averaged almost 250,000 IWM option contracts per day during that time, for a total of almost 33 million contracts. In contrast, QQQQ options, which have a position limit of 900,000 contracts, have averaged almost 575,000 contracts per day in 2007.

The Exchange believes that maintaining the increased position and exercise limits for IWM options will lead to a more liquid and more competitive market environment for IWM options that will benefit customers interested in this product. In fact, the Exchange has received positive feedback from market participants, who have expressed a desire that the IWM Option Pilot Program be renewed. For these reasons, the Exchange believes that the above stated reasons justify the IWM Option Pilot Program and requests that the Commission extend the IWM Option Pilot Program for an additional six-month time period, through January 18, 2008.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>10</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>11</sup> in particular, because it is designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and practices, and, in general, to 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 would impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

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<sup>9</sup> See id.

<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</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

No written comments were solicited or received written comments with respect to the proposed rule change.

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

Because the proposed rule change 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 after the date of filing (or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest), the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>12</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>13</sup>

At any time within 60 days of the filing of the 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 the 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

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<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</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-2007-61 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-2007-61. 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-2007-61 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>14</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>14</sup> 17 CFR 200.30-3(a)(12).