

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56190; File No. SR-CBOE-2007-04)

August 2, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change and Amendment No. 1 Thereto Amending its Obvious Error Rule for Equity Options

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 February 21, 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. On July 2, 2007, the CBOE 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 proposes to amend CBOE Rule 6.25, which is the Exchange’s rule applicable to the nullification and adjustment of transactions in equity options, to revise its obvious error provision related to “no bid” series. The Exchange is also proposing to make a non-substantive change by adding a cross-reference within the text of Rule 6.25.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 1 supersedes and replaces the original filing in its entirety. The substance of Amendment No. 1 is incorporated into this notice.

Below is the text of the proposed rule change. Proposed new language is underlined and proposed deletions are in [brackets].

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Chicago Board Options Exchange, Incorporated

Rules

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Rule 6.25 - Nullification and Adjustment of Equity Options Transactions

RULE 6.25. This Rule governs the nullification and adjustment of transactions involving equity options. Rule 24.16 governs the nullification and adjustment of transactions involving index options and options on ETFs and HOLDRs. Paragraphs (a)(1), [and] (2) and (5) of this Rule have no applicability to trades executed in open outcry.

(a) Trades Subject to Review

A member or person associated with a member may have a trade adjusted or nullified if, in addition to satisfying the procedural requirements of paragraph (b) below, one of the following conditions is satisfied:

(1) No change.

(2) No Bid Series. Electronic transactions in series quoted no bid on the Exchange will be nullified provided:

(i) the bid in that series immediately preceding the execution was, and for five seconds prior to the execution remained, zero; and

(ii) at least one strike price below (for calls) or above (for puts) in the same options class was quoted no bid at the time of execution.

For purposes of subparagraphs (a)(2)(i) and (a)(2)(ii), bids and offers of the parties to the subject trade that are in any of the series in the same options class shall not be considered. In addition, each group of series in an options class with a non-standard deliverable will be treated as a separate options class.

(3) – (5) No change.

(b) – (e) No change.

. . . Interpretations and Policies:

.01 - .03 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 Exchange is proposing to amend Rule 6.25, which is its obvious error rule pertaining to equity options, in order to modify the nullification provisions for no bid series. Currently, the Rule simply provides that electronic transactions in series that are quoted no bid on the Exchange are subject to nullification provided that at least one strike price below (for calls) or above (for puts) in the same options class was quoted no bid at the time of execution. Under the

revised Rule, additional criteria and clarifying language would be added. Specifically, an electronic transaction in a series quoted no bid on the Exchange would be subject to nullification provided: (i) the bid in that series immediately preceding the execution was, and for five (5) seconds prior to the execution remained, zero; and (ii) at least one strike price below (for calls) or above (for puts) in the same options class was quoted no bid at the time of execution. Thus, for example, if a trade occurs in the ABC 45 call option series when the series was quoted \$0.00 - \$0.10, the trade may be nullified if: (i) the bid was at \$0.00 for at least five (5) seconds prior to the execution; and (ii) at least one call option series in ABC with a strike below 45 (e.g., the ABC 30, 35 or 40 call option series) had a bid of \$0.00 at the time of execution.

The revised no bid provision would also provide that, when determining the Exchange's quotes in the relevant series for purposes of (i) and (ii) above, bids and offers of the parties to the subject trade that are in any of the series in the same options class shall not be considered. The revised rule would also provide that each group of series in an options class with a non-standard deliverable will be treated as a separate options class. Thus, for example, if due to a reorganization, certain of the series in the ABC option class have a deliverable of 150 shares per options contract (as compared to the standard 100 shares per option contract), all ABC option series that are subject to the 150 contract delivery requirements would be considered separately from the ABC option series that are subject to the 100 contract delivery requirements for purposes of applying the no bid provision. Finally, the revised Rule would clarify that the no bid provision is intended to apply to series quoted no bid on the Exchange (as opposed to series for which the national best bid is quoted no bid).⁴

⁴ Consistent with the existing provisions, for a nullification to be granted, any member or person associated with a member that believes it participated in a transaction that falls

The Exchange states that the proposed changes to the no bid provision are intended to address the Exchange's experience in applying the provision to particular trading scenarios that have occurred. The Exchange believes that the additional criteria and clarifications are reasonable and objective, and would serve to better identify instances where the no bid provision is intended to apply.

The Exchange is also proposing to make a revision to the introductory language in Rule 6.25 in order to cross reference paragraph (a)(5), which pertains to erroneous trades resulting from an erroneous quote in the underlying, as one of the three obvious error provisions that have no applicability to trades executed in open outcry.⁵ The Exchange is proposing to include the cross-reference in the introductory language in Rule 6.25 for consistency and completeness. The Exchange asserts that this proposed change is non-substantive because the text of paragraph (a)(5) already explicitly provides that the provision is not applicable to trades executed in open outcry.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act,⁶ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁷ in particular, in that it is designed to promote just and equitable principles of trade, prevent fraudulent and manipulative

within the no bid series parameters must also satisfy the notification procedures set forth in paragraph (b) of Rule 6.25.

⁵ The other two obvious error provisions that have no applicability to trades executed in open outcry pertain to obvious price errors and no bid series. See introductory language to Rule 6.25 and paragraphs (a)(1) and (2) thereunder.

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

acts, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, 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 will impose any burden on competition 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

No written comments were solicited or received by the Exchange 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 Exchange consents, the Commission will:

- A. by order approve the 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-2007-04 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-2007-04. 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, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. 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 available publicly. All submissions should refer to File Number SR-CBOE-2007-04 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

Florence E. Harmon
Deputy Secretary

⁸ 17 CFR 200.30-3(a)(12).