

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56701; File No. SR-CBOE-2007-68)

October 25, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of Proposed Rule Change, as Modified by Amendment No.1, Regarding Complex Orders

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 20, 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 prepared substantially by the CBOE. On October 19, 2007, the CBOE filed Amendment No. 1 to the proposed rule change.³ The Commission is publishing this notice to solicit comments on the proposed rule change, as modified by Amendment No. 1, from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The CBOE proposes to amend its rules regarding the handling of certain complex orders. The text of the proposed rule change is available on the Exchange’s Web site at (<http://www.cboe.org/Legal>), at the CBOE’s Office of the Secretary, 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 1 replaces the original filing in its entirety.

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

CBOE Rule 6.53C, “Complex Orders on the Hybrid System,” governs the electronic handling and execution of complex orders by the Exchange’s Hybrid System. The purpose of this filing is to allow for the electronic handling and execution of stock-option orders on the Exchange. These are a type of complex order that consist of an option component and a stock component. Stock-option orders are popular with investors (e.g., buy-writes) and are frequently handled on CBOE. To date, these orders are handled manually and the option component is traded in open outcry by a broker. With the establishment of the CBOE Stock Exchange (“CBSX”), an electronic stock trading facility of CBOE, the Exchange is now positioned to handle and trade stock-option orders electronically, with the stock component execution taking place on CBSX.

The Exchange proposes to handle these orders in a manner that is substantially similar to other complex orders handled pursuant to CBOE Rule 6.53C. Electronic stock-option orders will be accepted by the Hybrid System and auctioned in the Complex Order Auction (“COA”) pursuant to CBOE Rule 6.53C(d) when the requirements for an auction are met. An unexecuted stock-option order can also be maintained by the system (either in the Complex Order Book (“COB”) or on the PAR workstation), either of which will monitor the marketability of the order, taking into account the CBSX market for the execution of the stock component of the order.

There are four differences between the handling of stock-option orders and other complex order types handled pursuant to CBOE Rule 6.53C. First, as previously mentioned, the stock portion of the stock-option order will be executed on CBSX. All such executions will be consistent with CBSX trading rules, including priority and matching rules. The execution of the stock-option order cannot take place until the desired price of the stock component is achievable on CBSX. The option leg of the stock-option order will not trade ahead of any resting public customer orders on the Hybrid book. This is consistent with existing CBOE Rule 6.45A(b)(ii), which provides that stock-option orders do not have priority over bids/offers in the public customer limit order book. The option leg may be executed in one-cent increments regardless of the minimum increment applicable to the series.

For example: a customer enters a buy-write order to buy 100 shares of XYZ (trading around \$40) and sell a 45 call with a net price of \$39.00. There is a public customer order in the Hybrid book to sell the 45 call for \$1. When executing the buy-write against auction responses, the system will not allow the option leg of the transaction to trade at \$1 or higher (thereby preserving the resting limit order's priority at that price). An execution could occur where the option leg prints at \$0.99 and the stock trade prints at \$39.99 (in accordance with CBSX priority rules). This meets the buy-write's limit price (involving a total cost of \$3900) and does not violate priority on CBOE or CBSX.

Second, the execution of a stock-option order submitted to the COB is slightly different than the priority outlined in CBOE Rule 6.53C(c)(ii). More specifically, a stock-option order submitted to the CBOE will trade in the following sequence: (1) against other stock-option orders in the COB using public customer priority and then time priority (thus, if there are multiple public customer and broker-dealer stock-option orders resting in COB, the public

customer orders will trade first with time priority among them, and then the broker-dealer orders will trade with time priority among them); (2) against individual orders or quotes on the Exchange (i.e., the CBSX book and the options Hybrid book), provided the stock-option order can be executed in full (or in a permissible ratio); and (3) against orders or quotes submitted by Market Participants, as set forth in CBOE Rule 6.53C(c)(ii)(3). Because a portion of a stock-option order is executed on a different platform (CBSX), it is more practical to execute resting stock-option orders against other stock-option orders received by the system first before scanning for executions against the legs on the CBSX book and the options Hybrid book.

The third difference involves the manner in which stock-option orders are executed through the COA. Individual orders and quotes for the various legs of the order will have last priority. Again, this is because it is more practical to execute resting stock-option orders against other stock-option orders received by the system first before scanning for executions against the legs on the CBSX book and the options Hybrid book.

For example: the market for XYZ stock on CBSX is \$39.94 – 39.99. The 45 call market on CBOE is \$0.95 - 1.00. A stock-option order is entered to buy 100 shares and sell the 45 call with a net price of \$39.00. The stock-option order is auctioned through the COA, but no responses are received (if responses had been received, priority would have been afforded to public customer responses and any resting public customer stock-option orders that were marketable against the auctioned order using time priority). After the system has determined that there are no responses or resting stock-option orders that can trade against the auctioned stock-option order, it will look to the individual leg markets. In this case, the stock-option order will be filled by the system by executing the stock at \$39.99 against the CBSX book and the option at \$1 against the CBOE book.

With respect to the last difference, the N-second group timer shall not be in effect for stock-option orders.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁵ in particular, in that it is designed to facilitate transactions in securities, to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and, in general, to protect investors and the public interest. In particular, the Exchange believes that the addition of stock-option orders to the list of complex orders eligible for electronic handling under CBOE Rule 6.53C is a significant enhancement for investors seeking automated handling of stock-option orders.

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.

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

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:

⁴ 15 U.S.C. 78f(b).

⁵ 15 U.S.C. 78f(b)(5).

- (A) by order approve such 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-2007-68 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-2007-68. 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, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. 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-2007-68 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.⁶

Nancy M. Morris
Secretary

⁶ 17 CFR 200.30-3(a)(12).