

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56730; File No. SR-CBOE-2007-74)

November 1, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1 Thereto, to Amend CBOE Rule 6.13A to Modify the Simple Auction Liaison Auction Process and Incorporate Specific Provisions for Hybrid 3.0 Classes

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 July 2, 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 CBOE. On October 16, 2007, 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 amended, from interested persons.

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

CBOE proposes to amend CBOE Rule 6.13A to (i) modify the increments in which responses may be submitted during the Simple Auction Liaison (“SAL”) auction process and (ii) incorporate provisions for Hybrid 3.0 Classes in which SAL is activated. The text of the proposed rule change is available on the Exchange’s Web site (<http://www.cboe.com/Legal>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 1 replaced and superseded the original filing in its entirety.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, CBOE 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 Rule 6.13A governs the operation of the Exchange's SAL system. SAL is a feature on CBOE's Hybrid system that auctions marketable orders for price improvement over the National Best Bid and Offer. The purpose of this proposed rule change is to amend CBOE Rule 6.13A to (i) modify the increments in which responses may be submitted during the SAL auction process and (ii) incorporate provisions for Hybrid 3.0 Classes in which SAL is activated. Although modifying the auction increments in which responses could be submitted to include standard increments would widen the quote as compared to one-cent increments, the Exchange believes this modification may encourage Market-Makers and other market participants to quote more aggressively overall. In addition, incorporating SAL on the Hybrid 3.0 Platform will further automate the order handling process on Hybrid 3.0.

In providing marketable orders with the potential for price improvement, SAL provides an auction, for a period of time not to exceed two seconds as determined by the Exchange on a class-by-class basis, for any qualifying order ("Agency Order") that is eligible for automatic

execution by CBOE’s Hybrid System.⁴ Under the current SAL rule, during the auction process, Market-Makers with an appointment in the relevant option class and CBOE members acting as agents for orders resting at the top of the Exchange’s book opposite the Agency Order could submit a response during the auction. CBOE Rule 6.13A(b) outlines the procedures regarding how a response shall be submitted during the auction and provides that the response may be submitted in one-cent increments. This filing proposes to modify this rule to allow the auction response in all option classes in which SAL is activated to be submitted in one-cent increments, unless for the relevant option class the Exchange has determined that responses shall be submitted in standard increments.⁵

Pursuant to CBOE’s existing SAL rule, Agency Orders would be allocated in two rounds.⁶ For Hybrid 3.0 Classes, the filing proposes to conduct only one round of allocations, since the DPM/LMM is the only “quoter” on the Hybrid 3.0 Platform.⁷ Specifically, the first round allocation specified in paragraph (c)(i) shall not apply. In Hybrid 3.0 Classes, the single round allocation will be conducted pursuant to the criteria in paragraph (c)(ii), with a few differences.

Such differences involve proposed modifications to the allocation and participation entitlement process for SAL on Hybrid 3.0 Classes. The current SAL rule allocates the Agency Order pursuant to the matching algorithm that is in effect for the class pursuant to Rule 6.45A or

⁴ See CBOE Rule 6.13(b)(C)(i).

⁵ See proposed changes to CBOE Rule 6.13A(b)(ii).

⁶ See CBOE Rule 6.13A(c).

⁷ Pursuant to CBOE Rule 1.1(aaa), the Hybrid 3.0 Platform is an electronic trading platform on the Hybrid trading system that allows a single quoter to submit an electronic quote which represents the aggregate Market-Maker quoting interest in a series for the trading crowd.

Rule 6.45B.⁸ This filing proposes to provide the Exchange with some flexibility regarding the allocation of the Agency Order to permit the matching algorithm as applied to SAL to be different from the matching algorithm that is currently in effect for the Hybrid 3.0 Class. Therefore, for Hybrid 3.0 Classes, the Exchange proposes to allow the appropriate Exchange Procedure Committee to determine, on a class-by-class basis, which electronic matching algorithm shall apply to SAL executions. The matching algorithm applied to SAL in Hybrid 3.0 Classes will continue to be pursuant to Rule 6.45B.

The existing SAL rule also provides for a Market-Maker to receive a participation entitlement only if the applicable matching algorithm (from Rule 6.45A or 6.45B) that is in effect for the class includes a participation entitlement.⁹ Currently, Hybrid 3.0 does not permit an LMM or DPM to receive a participation entitlement as it pertains to the allocation of incoming electronic orders. In Hybrid 3.0 Classes, pursuant to existing rules, all eligible orders pursuant to Rule 6.13 can receive automatic execution against public customer orders in the electronic book. The remaining balance of the eligible order, if any, may be represented in the electronic book, provided such order is eligible for book entry pursuant to Rule 7.4; if not book eligible, the remaining balance of the eligible order will route to PAR, BART, or the order entry firm's book printer.¹⁰ Orders not eligible for automatic execution will route on a class-by-class basis to PAR, BART, or the order entry firm's booth printer.¹¹ Since the LMM or DPM does not receive a participation entitlement with regard to incoming electronic orders, this filing proposes

⁸ See CBOE Rule 6.13A(c)(1).

⁹ See CBOE Rule 6.13A(c)(3).

¹⁰ See CBOE Rule 6.13(b)(i)(A)(2).

¹¹ See CBOE Rule 6.13(b)(i)(B).

to permit the appropriate Exchange Market Performance Committee to establish, on a class-by-class basis, an LMM or DPM participation entitlement applicable only to SAL executions in Hybrid 3.0 Classes. Incorporating SAL on the Hybrid 3.0 Platform will provide not only a more automated order handling process in Hybrid 3.0 Classes, but will also provide Market-Makers with electronic access to the Agency Order since Market-Makers will be able to electronically respond to the Agency Order through SAL. The Exchange believes that with Market-Makers having access to electronically respond to the Agency Order, incorporating a LMM/DPM participation entitlement to SAL executions may in turn provide more aggressive quoting. The participation entitlement shall be in compliance with the provisions of Rule 6.45B(a)(i)(2). The size of each response to the SAL auction shall continue to be capped to the size of the Agency Order for allocation purposes.

When the SAL system is enabled, the Exchange will conduct a SAL auction only when the Exchange's quote is represented by the DPM/LMM quote. The Exchange will not conduct a SAL auction when the Exchange's quote is represented by a manual quote.¹² All other aspects of SAL pursuant to CBOE Rule 6.13A shall apply to Hybrid 3.0 Classes.

2. Statutory Basis

As noted above, modifying the SAL auction increments in which responses could be submitted to include standard increments may encourage more aggressive quoting, and incorporating SAL on the Hybrid 3.0 Platform will further automate the order handling process on Hybrid 3.0. Accordingly, the Exchange believes the proposed rule change is consistent with Section 6(b) of the Act¹³ in general and furthers the objectives of Section 6(b)(5) of the Act¹⁴ in

¹² See proposed CBOE 6.13A.04(iii).

¹³ 15 U.S.C. 78f(b).

particular in that it should promote just and equitable principles of trade, serve to 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

This proposed rule change does not 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

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

- (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:

¹⁴ 15 U.S.C. 78f(b)(5).

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-2007-74 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-2007-74. 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 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-2007-74 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.¹⁵

Florence E. Harmon
Deputy Secretary

¹⁵ 17 CFR 200.30-3(a)(12).