

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-52689; File No. SR-CBOE-2005-39)

October 27, 2005

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of Proposed Rule Change to Amend Its \$2.50 Strike Price Program

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 May 13, 2005, 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 by the CBOE. 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 CBOE proposes to amend CBOE Rule 5.5, Interpretation and Policy .05, pertaining to the \$2.50 Strike Price Program. Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in [brackets].

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Rule 5.5 Series of Option Contracts Open for Trading

(a) – (c) No change.

...Interpretations and Policies:

.01 - .04 No change.

.05 [The four options exchanges] (a) \$2.50 Strike Price Program. Pursuant to a program initially approved by the SEC in 1995, the Exchange may select up to [100] 60 options classes on

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

individual stocks for which the interval of strike prices will be \$2.50 where the strike price is greater than \$25 but less than \$50. [In addition, starting in the fourth calendar quarter of 1998, the four options exchanges may add twenty new classes to this program for each of the next five calendar quarters, such that at the end of the period the Exchanges will be able to select up to 200 classes to participate in the program. The 100 options classes and the 20 classes added each quarter may be selected by the various options exchanges pursuant to any agreement mutually agreed to by the individual exchanges.] In addition to those options selected by the Exchange, the strike price interval may be \$2.50 in any multiply-traded option once another exchange trading that option selects such option, as part of this program. [The CBOE and any of the other exchanges may also list strike prices of \$2.50 on any option class that was selected by the NYSE pursuant to this program.]

(b) In addition, on any option class that has been selected as part of the \$2.50 Strike Price Program pursuant to paragraph (a) above, the Exchange may list \$2.50 strike prices between \$50 and \$75, provided the \$2.50 strike prices between \$50 and \$75 are no more than \$10 from the closing price of the underlying stock in its primary market on the preceding day. For example, if an option class has been selected as part of \$2.50 Strike Price Program, and the underlying stock closes at \$48.50 in its primary market, the Exchange may list the \$52.50 strike price and the \$57.50 strike price on the next business day. If an underlying security closes at \$54, the Exchange may list the \$52.50 strike price, the \$57.50 strike price, and the \$62.50 strike price on the next business day.

(c) An option class shall remain in the \$2.50 Strike Price Program until otherwise designated by the Exchange and a decertification notice is sent to the Options Clearing Corporation.

.06 - .08 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 CBOE included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it had received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The 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 CBOE proposes to amend CBOE Rule 5.5, Interpretation and Policy .05, to allow the listing of \$2.50 strike prices between \$50 and \$75 on those option classes that have been selected as part of the \$2.50 Strike Price Program, provided the \$2.50 strike prices between \$50 and \$75 are no more than \$10 from the closing price of the underlying stock in its primary market on the preceding day. For example, and as expressly described in the proposed change to Rule 5.5, if an option class has been selected as part of \$2.50 Strike Price Program, and the underlying stock closes at \$48.50 in its primary market, the CBOE could list the \$52.50 strike price and the \$57.50 strike price on the next business day. If an underlying security closes at \$54, the CBOE could list the \$52.50 strike price, the \$57.50, and the \$62.50 strike price on the next business day.

The \$2.50 Strike Price Program was initially adopted in 1995 as a joint pilot program of the options exchanges, whereby the options exchanges were permitted to list \$2.50 strike prices up

to \$50 on a total of up to 100 option classes. The \$2.50 Strike Price Program was later permanently approved and expanded in 1998 to allow the options exchanges to select up to 200 classes on which to list \$2.50 strike prices up to \$50. Of these 200 option classes eligible for the \$2.50 Strike Price Program, 60 classes were allocated to the CBOE pursuant to a formula approved by the Commission. Each options exchange, however, is permitted to list \$2.50 strike prices on any option class that another exchange selects as part of the \$2.50 Strike Price Program.

The CBOE believes that the experiences over the past 10 years with the \$2.50 Strike Price Program have produced positive results. Specifically, the \$2.50 Strike Price Program has stimulated customer interest by creating additional trading opportunities, by providing more flexibility in trading decisions, and by affording customers the ability to more closely tailor investment strategies to the precise movement of the underlying security. The CBOE's proposal to expand the \$2.50 Strike Price Program as described in this proposed rule change is intended to provide customers with greater flexibility in their investment choices for those stocks priced between \$50 and \$75 that have a low volatility and thus trades in narrow range. The CBOE represents that Options Price Reporting Authority has the capacity to accommodate the increase in the number of series added pursuant to this rule change.

Finally, the proposed rule change makes other technical changes to Rule 5.5, Interpretation and Policy .05, including expressly noting in the rule text: (i) the total number of option classes, i.e. 60, that the CBOE has been allocated of the 200 classes that are eligible for the Program; and (ii) that an option class shall remain in the \$2.50 Strike Price Program until otherwise designated by the Exchange and a decertification notice is sent to the Options Clearing Corporation.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,³ in general, and furthers the objectives of Section 6(b)(5),⁴ in particular, in that it is designed to promote just and equitable principles of trade as well as to protect investors and the public interest, by increasing trading opportunities which should, in turn, increase the depth and liquidity of the marketplace.

B. Self-Regulatory Organization's Statement on Burden on Competition

The 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.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither received nor solicited written 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 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.

³ 15 U.S.C. 78f(b).

⁴ 15 U.S.C. 78f(b)(5).

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-2005-39 on the subject line.

Paper comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-9303.

All submissions should refer to File Number SR-CBOE-2005-39. 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 Section, 100 F Street, NE, Washington, DC 20549. 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 publicly available. All submissions should refer to File Number SR-CBOE-2005-39 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.⁵

Jonathan G. Katz
Secretary

⁵ 17 CFR 200.30-3(a)(12).