

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-52889; File No. SR-CBOE-2005-94)

December 5, 2005

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Relating to the Exposure Period for Crossing Orders in the Hybrid Trading System

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 November 4, 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 and II 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 and is approving the proposal on an accelerated basis.

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

CBOE proposes to decrease the exposure period for crossing orders in its Hybrid Trading System (“Hybrid”) from 30 seconds to 10 seconds. The text of the proposed rule change is provided below (additions are underlined; deletions are [bracketed]).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Chicago Board Options Exchange, Incorporated

Rules

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Rule 6.45A. - Priority and Allocation of Equity Option Trades
on the CBOE Hybrid System

(a) – (e) No change.

. . . Interpretations and Policies:

.01 Principal Transactions: Order entry firms may not execute as principal against orders they represent as agent unless: (i) agency orders are first exposed on the Hybrid System for at least [~~thirty (30)]ten (10) seconds, (ii) the order entry firm has been bidding or offering for at least [~~thirty (30)]ten (10) seconds prior to receiving an agency order that is executable against such bid or offer, or (iii) the order entry firm proceeds in accordance with the crossing rules contained in Rule 6.74.~~~~

.02 Solicitation Orders. Order entry firms must expose orders they represent as agent for at least [~~thirty (30)]ten (10) seconds before such orders may be executed electronically via the electronic execution mechanism of the Hybrid System, in whole or in part, against orders solicited from members and non-member broker-dealers to transact with such orders.~~

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Rule 6.45B - Priority and Allocation of Trades in
Index Options and Options on ETFs on the CBOE Hybrid System

(a) – (d) No change.

. . . Interpretations and Policies:

.01 Principal Transactions: Order entry firms may not execute as principal against orders they represent as agent unless: (i) agency orders are first exposed on the Hybrid System for at least [thirty (30)]ten (10) seconds, (ii) the order entry firm has been bidding or offering for at least [thirty (30)]ten (10) seconds prior to receiving an agency order that is executable against such bid or offer, or (iii) the order entry firm proceeds in accordance with the crossing rules contained in Rule 6.74.

.02 Solicitation Orders. Order entry firms must expose orders they represent as agent for at least [thirty (30)]ten (10) seconds before such orders may be executed electronically via the electronic execution mechanism of the Hybrid System, in whole or in part, against orders solicited from members and non-member broker-dealers to transact with such orders.

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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 received on the proposed rule change. The text of these statements may be examined at the places specified in Item III 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

CBOE rules provide that an order entry firm may not execute an order it represents as agent with a facilitation or solicited order (referred to herein as "crossing orders") using Hybrid unless it first complies with the 30-second exposure requirement. Specifically, order entry firms

may not execute a facilitation cross unless (i) the agency order is first exposed on Hybrid for at least 30 seconds, (ii) the order entry firm has been bidding or offering for at least 30 seconds prior to receiving the agency order that is executable against such bid or offer, or (iii) the order entry firm proceeds in accordance with the floor-based open outcry crossing rules contained in CBOE Rule 6.74, “Crossing” Orders. Similarly, order entry firms may not execute a solicitation cross unless the agency order is first exposed on Hybrid for at least 30 seconds. During this 30 second exposure period for crossing orders, other members may enter orders to trade against the exposed order.

The Exchange proposes to shorten the duration of the exposure period contained in the rules governing such transactions, as set forth in Interpretations and Policies .01 and .02 to CBOE Rules 6.45A, Priority and Allocation of Equity Option Trades on the CBOE Hybrid System, and 6.45B, Priority and Allocation of Trades in Index Options and Options on ETFs on the CBOE Hybrid System, from 30 seconds to 10 seconds. This shortened exposure period is fully consistent with the electronic nature of Hybrid. Market participants on the CBOE have implemented systems that monitor any updates to the CBOE market including any changes resulting from orders being entered into Hybrid and can automatically respond based on pre-set parameters. Thus, an exposure period of 10 seconds will permit exposure of orders on the CBOE in a manner consistent with the Exchange’s electronic market.

By reducing the exposure time from 30 seconds to 10 seconds, the CBOE believes that members will be able to provide liquidity to their customers’ orders on a timelier basis, thus providing investors with more speedy executions. Timely and accurate executions are consistent with the principles under which Hybrid was developed.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act³ in general and furthers the objectives of Section 6(b)(5) of the Act⁴ in particular in that it is designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to 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. In particular, the proposed rule change will provide investors with more timely execution of their options orders, while ensuring that there is an adequate exposure of all crossing orders in the CBOE marketplace.

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

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

III. 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

³ 15 U.S.C. 78f(b).

⁴ 15 U.S.C. 78f(b)(5).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2005-94 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-CBOE-2005-94. 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 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-2005-94 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

IV. Commission's Findings and Order Granting Accelerated Approval of the Proposed Rule Change

After careful consideration, the Commission finds that the proposed rule change is consistent with the requirements of Section 6(b) of the Act⁵ and the rules and regulations

⁵ 15 U.S.C. 78f(b).

thereunder applicable to a national securities exchange,⁶ and in particular with Section 6(b)(5) of the Act.⁷ The Commission believes that, in the electronic environment of Hybrid, reducing the exposure period to 10 seconds could facilitate the prompt execution of orders, while providing participants in Hybrid with an adequate opportunity to compete for exposed bids and offers.

The Exchange has requested accelerated approval of the proposed rule change. The Commission finds good cause, pursuant to Section 19(b)(2) of the Act,⁸ for approving the proposed rule change prior to the thirtieth day after the date of publication of the notice of filing in the Federal Register. The Commission believes that accelerated approval of the proposed rule change will allow the Exchange to remain competitive with other exchanges that permit the crossing of orders after a 10-second exposure period.⁹

⁶ In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁷ 15 U.S.C. 78f(b)(5).

⁸ 15 U.S.C. 78s(b)(2).

⁹ See, e.g., Securities Exchange Act Release No. 52814 (November 21, 2005), 70 FR 71591 (November 29, 2005) (SR-PCX-2005-85).

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁰ that the proposed rule change (SR-CBOE-2005-94) is hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Jonathan G. Katz
Secretary

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ 17 CFR 200.30-3(a)(12).