

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53135; File No. SR-CBOE-2005-83)

January 17, 2006

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving Proposed Rule Change Relating to the SizeQuote Mechanism

On October 11, 2005, the Chicago Board Options Exchange, Incorporated (“CBOE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² a proposed rule change to modify its pilot SizeQuote Mechanism for the execution of large-sized orders in open outcry.³ The proposed rule change was published for comment in the Federal Register on December 12, 2005.⁴ The Commission received no comments regarding the proposal. This order approves the proposed rule change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ CBOE Rule 6.74(f), which sets forth the rules and procedures for use of the SizeQuote Mechanism, was approved by the Commission in February 2005 for adoption on a pilot basis. See Securities Exchange Act Release No. 51205 (February 15, 2005), 70 FR 8647 (February 22, 2005).

In brief, a floor broker seeking to use the SizeQuote Mechanism to facilitate a customer’s large-sized order (“SizeQuote Order) must request a “SizeQuote” from in-crowd market participants (“ICMPs”), who may respond with indications of the price and size at which they would be willing to trade with the order. ICMPs who respond at the best price have priority to trade with the order at that best price and at one trading increment better (the “improved best price”). If the ICMPs do not execute the entire SizeQuote Order, the floor broker must be prepared to execute the remaining contracts against a facilitation order at the best price or the improved best price, as applicable. However, the floor broker has priority to facilitate the entire SizeQuote Order at a price two trading increments better than the best price provided by the ICMPs. For a more complete description, see Securities Exchange Act Release No. 50967 (January 5, 2005), 70 FR 2197 (January 12, 2005).

⁴ See Securities Exchange Act Release No. 52888 (December 5, 2005), 70 FR 73492.

The proposed rule change would establish that, in addition to a floor broker crossing a SizeQuote Order with a facilitation order in accordance with the SizeQuote Mechanism's procedures, a floor broker also may cross the SizeQuote order with one or more solicited orders or a combination of solicited and facilitation orders.

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b)(5) of the Act.⁵ The Commission believes that, by giving floor brokers the alternative of crossing customers' SizeQuote Orders with solicited orders, the proposed rule change is intended to expand the potential benefits of the SizeQuote Mechanism. The Commission notes that the proposal does not alter the procedures a floor broker must follow in executing SizeQuote Orders.

⁵ 15 U.S.C. 78f(b)(5). In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁶ that the proposed rule change (SR-CBOE-2005-83) is approved until the expiration of the current SizeQuote pilot program on February 15, 2006.⁷

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁸

Nancy M. Morris
Secretary

⁶ 15 U.S.C. 78s(b)(2).

⁷ The Commission notes that the current SizeQuote pilot program expires on February 15, 2006. The Exchange has indicated to Commission staff its intent to propose an extension of the pilot program, as amended by the instant proposal, for an additional year. Telephone Conversation between Jennifer Lamie, Managing Senior Attorney, CBOE and Ira Brandriss, Special Counsel, Division of Market Regulation, Commission on January 13, 2006.

⁸ 17 CFR 200.30-3(a)(12).