

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53410; File No. SR-CBOE-2006-24)

March 3, 2006

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending its Rule 8.3 to Extend for an Additional Year a Pilot Program Relating to Market-Makers Quoting Outside Their Appointed Trading Station

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 March 2, 2006, 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 Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ which renders the proposal effective upon filing with the Commission.⁵ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

⁵ As required by Rule 19b-4(f)(6)(iii), 17 CFR 240.19b-4(f)(6)(iii), the CBOE submitted written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing.

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

The CBOE proposes to amend CBOE Rule 8.3 to extend for an additional year a pilot program relating to Market-Makers quoting outside their appointed trading station. The text of the proposed rule change is below. Proposed additions are underlined and proposed deletions are in brackets:

Rule 8.3 – Appointment of Market-Makers

Rule 8.3. This Rule governs the appointment of Market-Makers other than Remote Market-Makers. Rule 8.4 governs the appointment of Remote Market-Makers.

- (a) No change.
- (b) No change.
- (c) Absent an exemption by the appropriate Market Performance Committee,

an appointment of a Market-Maker confers the right to quote as described below:

- (i) No change.
- (ii) No change.
- (iii) No change.

With respect to classes located at his/her appointed trading station, a Market-Maker may submit, [for a one-year] as part of a pilot program [period] ending March 24, 2007[2006], electronic quotations from a location outside of the appointed trading station in his/her appointed Hybrid classes and his/her appointed Hybrid 2.0 Classes. Any Market-Maker affiliated with an e-DPM or RMM shall be ineligible to submit electronic quotations from outside of its appointed trading station pursuant to this rule in any class in which the affiliated e-DPM or RMM has an appointment.

(d) 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 received on the proposal. 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 purpose of this rule change is to extend for an additional year, until March 24, 2007, an existing Pilot Program that allows a CBOE Market-Maker to submit electronic quotations in his/her Hybrid and Hybrid 2.0 classes from a location outside of his/her appointed trading station.

In March 2005, the CBOE amended its rules relating to Market-Maker appointments and quoting obligations.⁶ The Exchange amended, among other things, Rule 8.3 to provide that a Market-Maker may submit electronic quotations from a location outside of his/her appointed trading station. Previously, Market-Makers were only permitted to stream electronic quotations in their appointed Hybrid and Hybrid 2.0 classes when they were physically present in the trading crowd. In making this change, the CBOE determined to request that it only be approved

⁶ See Securities Exchange Act Release No. 51429 (March 24, 2005), 70 FR 16536 (March 31, 2005) (approving SR-CBOE-2004-58).

on a pilot basis so as to give the Exchange the ability to evaluate the effectiveness of allowing Market-Makers to quote remotely. The current Pilot program is scheduled to expire on March 24, 2006.

The Exchange believes that the Pilot Program has been successful, in that it allows Market-Makers to choose how they would like to participate in CBOE's Hybrid Trading System, i.e., electronically, in open outcry, or both. The CBOE states that, although not all Market-Makers have chosen to quote electronically from outside their trading station, those Market-Makers that have availed themselves of this Pilot Program continued to provide liquidity and increased competition in their appointed option classes when they quoted remotely. The Exchange states that it has not experienced any negative effects from allowing Market-Makers to quote from a location outside of their appointed trading station. Thus, the CBOE believes it would be appropriate and beneficial to extend the Pilot Program for an additional year until March 24, 2007, and permit Market-Makers to continue to have the option to quote electronically from a location outside their appointed trading station.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations under the Act applicable to a national securities exchange and, in particular, the requirements of Section 6(b) of the Act.⁷ Specifically, the Exchange believes the proposed rule change is consistent with the requirement of Section 6(b)(5) Act⁸ that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and, in general, to protect investors and the public interest.

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

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

The CBOE believes that the proposed rule change will not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

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

The CBOE has neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) by its terms does not become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.

Normally, a proposed rule change filed under Rule 19b-4(f)(6) does not become operative for 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest.

The CBOE has asked the Commission to waive the 30-day operative delay. Allowing Market-Makers to quote electronically into their appointed Hybrid and Hybrid 2.0 option classes from a location outside their appointed trading station does not raise any new or unique issues.⁹ The Commission believes that waiving the 30-day operative delay is consistent with the

⁹ See supra, at n.6.

protection of investors and the public interest because the continuation of this program may enhance competition and liquidity and provide Market-Makers with additional trading opportunities.¹⁰ For this reason, the Commission designates that the proposal has become effective and operative immediately upon filing with the Commission. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.¹¹

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-2006-24 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.

¹⁰ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹¹ See Rule 19b-4(f)(6)(iii), 17 CFR 240.19b-4(f)(6)(iii).

All submissions should refer to File Number SR-CBOE-2006-24. 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-2006-24 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.¹²

Nancy M. Morris
Secretary

¹² 17 CFR 200.30-3(a)(12).