

## OMB APPROVAL

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Page 1 of 14

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
Form 19b-4

File No. SR - 2007 - 02  
Amendment No.

Proposed Rule Change by Chicago Board Options Exchange  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial ☒ Amendment ☐ Withdrawal ☐

Section 19(b)(2) ☐ Section 19(b)(3)(A) ☒ Section 19(b)(3)(B) ☐

## Rule

Pilot ☐  
Extension of Time Period  
for Commission Action ☐  
Date Expires

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)  
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)  
☐ 19b-4(f)(3) ☒ 19b-4(f)(6)

Exhibit 1 Sent As Paper Document ☐Exhibit 5 Sent As Paper Document ☐**Description**

Provide a brief description of the proposed rule change (limit 250 characters).

CBOE is proposing to amend Exchange Rule 6.54 to (i) provide that a Market-Maker may initiate a cabinet trade without need to place an order with an Order Book Official or a Floor Broker, and (ii) make clear that a Floor Broker or a Market-Maker can enter into an opening or closing cabinet transaction, but must yield priority to the cabinet book.

**Contact Information**

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name Jennifer Last Name Lamie  
Title Assistant General Counsel  
E-mail lamie@cboe.com  
Telephone (312) 786-7576 Fax (312) 786-7919

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 01/08/2007

By Jennifer M. Lamie

(Name)

Assistant General Counsel and Assistant Secretary

(Title)

NOTE: Clicking the button at right will digitally sign and lock  
this form. A digital signature is as legally binding as a physical  
signature, and once signed, this form cannot be changed.

Jennifer Lamie lamie@cboe.com

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

**Form 19b-4 Information**

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change**

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

Item 1. Text of the Proposed Rule Change

The Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) proposes to amend the Exchange Rule 6.54 provisions pertaining to accommodation liquidations (also referred to as “cabinet trades”) to provide that a Market-Maker may initiate a cabinet trade without the need to place an order with an Order Book Official (“OBO”) or a Floor Broker. The Exchange is also proposing to make clear in the rule that a Floor Broker or a Market-Maker can enter into an opening or closing cabinet transaction, but must yield priority to all orders in the cabinet book. Set forth below are proposed changes to the rule text, with additions represented by underscoring and deletions represented by [bracketing].

\* \* \* \* \*

Chicago Board Options Exchange, Incorporated  
Rules

\* \* \* \* \*

Rule 6.54. Accommodation Liquidations (Cabinet Trades)

RULE 6.54. Cabinet trading under the following terms and conditions shall be available in each series of option contracts open for trading on the Exchange.

(a) For classes not trading on the CBOE Hybrid System:

(i) Trading shall be conducted in accordance with other Exchange Rules except as otherwise provided herein.

(ii) Limit orders labeled at a price of \$1 per option contract must be placed with the Order Book Official or with a Floor Broker.

(iii) Orders may be placed for customer, firm, and Market-Maker accounts and, to the extent such orders are placed with the Order Book Official, priority in the cabinet book will be based upon the sequence in which such orders are placed with the Order Book Official.

(iv) Bids and offers for opening and closing transactions may be represented by an Order Book Official, Floor Broker or Market-Maker subject to the following: Bids [or]and offers for opening transactions at a price of \$1 per option contract may be placed with the Order Book Official only to the extent that the cabinet book contains unexecuted contra closing orders with which the opening orders immediately may be matched. Bids and offers at a price of \$1 per option contract may be represented by a Floor Broker or by

a Market-Maker or [also be] provided in response to a request [for quote] by an Order Book Official, [or] a Floor Broker or a Market-Maker, but must yield priority to all orders in the cabinet book.

(v) Market-Makers shall not be subject to the requirements of Rule 8.7 for orders placed pursuant to this Rule.

(vi) The Order Book Official appointed to each class of option contracts shall be responsible for \$1 orders that are placed with him for that class. All bids and offers that are submitted to the Order Book Official must be submitted to the Order Book Official in writing and displayed as such in accordance with Rule 7.7, and the Order Book Official shall effect transactions during the day by matching such orders placed with him or by executing such orders placed with him with a Floor Broker or Market-Maker representing a contra order.

(vii) All cabinet transactions at a price of \$1 per option contract shall be reported to the Exchange following the close of each business day.

(b) No change.

... Interpretations and Policies:

.01 - .02 No change.

\* \* \* \* \*

Item 2. Procedures of the Self-Regulatory Organization

(a) The CBOE's Office of the Chairman pursuant to delegated authority approved the proposed rule change on December 28, 2006. No further action is required.

(b) Please refer questions and comments on the proposed rule change to Joanne Moffic-Silver, General Counsel, CBOE, 400 South LaSalle, Chicago, IL 60605, (312) 786-7462 or Jennifer Lamie, (312) 786-7576.

Item 3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

An "accommodation" or "cabinet" trade refers to trades in listed options on the Exchange that are worthless or not actively traded. Cabinet trading is generally conducted in accordance with the Exchange Rules, except as provided in Exchange Rule 6.54, Accommodation Liquidations (Cabinet Trades), which sets forth specific

procedures for engaging in cabinet trades. Rule 6.54 currently provides for cabinet transactions to occur via open outcry at a cabinet price of a \$1 per option contract whether or not the class trades on the Exchange's Hybrid Trading System.

The first purpose of the rule change is to amend Rule 6.54 to authorize Market-Makers to initiate cabinet trades. Thus, in addition to the existing cabinet trading procedures which permit Market-Makers to (i) place cabinet orders with an OBO<sup>1</sup> or a Floor Broker for representation and execution, and (ii) respond at a cabinet price in response to a request for quote from an OBO or a Floor Broker, a Market-Maker may now himself/herself initiate a cabinet trade in the trading crowd without need to first place the cabinet order with an OBO or Floor Broker. This will save the additional time and process involved in a Market-Maker needing to first place a cabinet order that he/she is initiating with an OBO or a Floor Broker, who would then in turn represent and execute the order on behalf of the Market-Maker. Thus, permitting Market-Makers to initiate cabinet orders and trades in accordance with the procedures described in Rule 6.54 will provide Market-Makers with additional flexibility and assist in the fair, orderly and efficient handling of cabinet transactions on the Exchange.<sup>2</sup>

The second purpose of the rule change is to amend Rule 6.54 to make clear that Floor Brokers or Market-Makers may enter into both opening and closing cabinet

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<sup>1</sup> A PAR Official may also perform the functions of an OBO. See Interpretation and Policy .02 to Rule 6.54.

<sup>2</sup> The Exchange notes that permitting a Market-Maker to initiate a cabinet trade is similar to and consistent with a recent amendment to Rule 6.54 that permitted Floor Brokers to initiate cabinet orders and trades. See Securities Exchange Act Release No. 53808 (May 16, 2006), 71 FR 29371 (May 22, 2006)(SR-CBOE-2006-33).

transactions, so long as they first yield priority to all orders in the cabinet book. Rule 6.54 currently provides that bids and offers for cabinet transactions may be placed with an OBO, provided that bids and offers for opening transactions may only be placed with an OBO to the extent that the cabinet book maintained by the OBO contains unexecuted contra closing orders with which the opening orders may be immediately matched. In addition, Rule 6.54 currently provides that Floor Brokers are permitted to represent and execute cabinet orders and also provides that bids and offers may be provided by Floor Brokers and Market-Makers in response to a request by an OBO or a Floor Broker, provided they yield priority to all orders in the OBO's cabinet book. However, the existing rule text is silent as to whether such orders represented by Floor Brokers and such bids and offers provided by Floor Brokers and Market-Makers may be for opening and closing transactions. In order to resolve any ambiguity that may exist, the rule text is being amended to make clear that both opening and closing transactions by Floor Brokers and Market-Makers are permitted so long as they first yield priority to all orders in the cabinet book.

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act")<sup>3</sup> in general and furthers the objectives of Section 6(b)(5) of the Act<sup>4</sup> in 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.

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<sup>3</sup> 15 U.S.C. 78f(b).

<sup>4</sup> 15 U.S.C. 78f(b)(5).

Item 4. 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.

Item 5. 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.

Item 6. Extension of Time Period for Commission Action

The Exchange does not consent to an extension of the time period specified in Section 19(b)(2) of the Act for Commission consideration of the proposed rule change.

Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

(a) The proposed rule change has taken effect upon filing pursuant to Section 19(b)(3)(A) of the Act.<sup>5</sup>

(b) The Exchange asserts that the proposed rule change (i) will not significantly affect the protection of investors or the public interest, (ii) will not impose any significant burden on competition, and (iii) will not become operative for 30 days after the date of this filing. The Exchange notes that it provided a copy of this rule filing to the Commission prior to filing. For the foregoing reasons, this rule filing qualifies as a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 under the Act.<sup>6</sup>

The Exchange requests that the Commission waive the 30-day operative delay requirement of this filing as the proposed rule change is non-controversial, does not substantially change the existing cabinet trading procedures, makes clarifications with

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<sup>5</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>6</sup> 17 CFR 240.19b-4(f)(6).

respect to opening and closing transactions, and provides additional flexibility for handling cabinet transactions with respect to Market-Makers which will assist in the fair, orderly and efficient handling of cabinet transactions on the Exchange. While the proposal provides additional clarity as to its requirements and flexibility for handling cabinet transactions for Market-Makers, there will be no detrimental effect on other market participants. The Exchange also believes that acceleration of the operative date is consistent with the protection of investors and the public interest.

(c) Not applicable.

(d) Not applicable.

Item 8. Proposed Rule Change Based on Rules or By-Laws of Another Self-Regulatory Organization or of the Commission

Not applicable.

Item 9. Exhibits

Exhibit 1. Notice of proposed rule change for publication in the Federal Register.



EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-CBOE-2007-02)

Dated: \_\_\_\_\_

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend its Rule Pertaining to Accommodation Liquidations (Cabinet Trades)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

(the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on \_\_\_\_\_,

2007, the Chicago Board Options Exchange, Incorporated ( “Exchange” or “CBOE”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> 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 Exchange proposes to amend the Exchange Rule 6.54 provisions pertaining to accommodation liquidations (also referred to as “cabinet trades”) to provide that a Market-Maker may initiate a cabinet trade without the need to place an order with an Order Book Official (“OBO”) or a Floor Broker. The Exchange is also proposing to make clear in the rule

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

that a Floor Broker or a Market-Maker can enter into an opening or closing cabinet transaction, but must yield priority to all orders in the cabinet book. The text of the proposed rule change is available on the Exchange's website (<http://www.cboe.com>), at the Exchange's Office of the Secretary and at the Commission.

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 self-regulatory organization 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 those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

An "accommodation" or "cabinet" trade refers to trades in listed options on the Exchange that are worthless or not actively traded. Cabinet trading is generally conducted in accordance with the Exchange Rules, except as provided in Exchange Rule 6.54, Accommodation Liquidations (Cabinet Trades), which sets forth specific procedures for engaging in cabinet trades. Rule 6.54 currently provides for cabinet transactions to occur via open outcry at a cabinet price of a \$1 per option contract whether or not the class trades on the Exchange's Hybrid Trading System.

The first purpose of the rule change is to amend Rule 6.54 to authorize Market-Makers to initiate cabinet trades. Thus, in addition to the existing cabinet trading procedures which permit Market-Makers to (i) place cabinet orders with an OBO<sup>5</sup> or a Floor Broker for

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<sup>5</sup> A PAR Official may also perform the functions of an OBO. See Interpretation and Policy .02 to Rule 6.54.

representation and execution, and (ii) respond at a cabinet price in response to a request for quote from an OBO or a Floor Broker, a Market-Maker may now himself/herself initiate a cabinet trade in the trading crowd without need to first place the cabinet order with an OBO or Floor Broker. This will save the additional time and process involved in a Market-Maker needing to first place a cabinet order that he/she is initiating with an OBO or a Floor Broker, who would then in turn represent and execute the order on behalf of the Market-Maker.

Thus, permitting Market-Makers to initiate cabinet orders and trades in accordance with the procedures described in Rule 6.54 will provide Market-Makers with additional flexibility and assist in the fair, orderly and efficient handling of cabinet transactions on the Exchange.<sup>6</sup>

The second purpose of the rule change is to amend Rule 6.54 to make clear that Floor Brokers or Market-Makers may enter into both opening and closing cabinet transactions, so long as they first yield priority to all orders in the cabinet book. Rule 6.54 currently provides that bids and offers for cabinet transactions may be placed with an OBO, provided that bids and offers for opening transactions may only be placed with an OBO to the extent that the cabinet book maintained by the OBO contains unexecuted contra closing orders with which the opening orders may be immediately matched. In addition, Rule 6.54 currently provides that Floor Brokers are permitted to represent and execute cabinet orders and also provides that bids and offers may be provided by Floor Brokers and Market-Makers in response to a request by an OBO or a Floor Broker, provided they yield priority to all orders in the OBO's cabinet book. However, the existing rule text is silent as to whether such orders represented by Floor Brokers and such bids and offers provided by Floor Brokers and Market-Makers may be for opening and closing transactions. In order to resolve any ambiguity that may exist, the rule text is being amended to make clear that both opening and closing transactions

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<sup>6</sup> The Exchange notes that permitting a Market-Maker to initiate a cabinet trade is similar to and consistent with a recent amendment to Rule 6.54 that permitted Floor Brokers to initiate cabinet orders and trades. See Securities Exchange Act Release No. 53808 (May 16, 2006), 71 FR 29371 (May 22, 2006)(SR-CBOE-2006-33).

by Floor Brokers and Market-Makers are permitted so long as they first yield priority to all orders in the cabinet book.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act<sup>7</sup> in general and furthers the objectives of Section 6(b)(5) of the Act<sup>8</sup> in 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

CBOE does not believe that the proposed rule change will 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 solicited nor received comments on the proposal.

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

Because the foregoing rule does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, provided that the self-regulatory organization has given the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of

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<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

the proposed rule change or such shorter time as designated by the Commission, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>9</sup> and Rule 19b-4(f)(6) thereunder.<sup>10</sup> At any time within 60 days of the filing of such 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.

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2007-02 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 20549-1090.

All submissions should refer to File Number SR-CBOE-2007-02. 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

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<sup>9</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>10</sup> 17 CFR 240.19b-4(f)(6).

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 20549-9303. 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-2007-02 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.<sup>11</sup>

Nancy M. Morris  
Secretary

Dated: \_\_\_\_\_

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<sup>11</sup> 17 CFR 200.30-3(a)(12).