

OMB APPROVAL

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

File No. SR - 2007 - 03

Assignment No.

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

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input checked="" type="checkbox"/>	Section 19(b)(3)(A) <input type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
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Rule:

Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action <input type="checkbox"/>	Date Expires <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)

Is this a "New" or "Revised" Document?



Is this a "New" or "Revised" Document?

**Description**

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

The Exchange is proposing to amend its obvious error rule applicable to index options, options on ETFs and options on HOLDERS in order to: (i) modify the provisions pertaining to erroneous prints and erroneous quotes in the underlying, (ii) eliminate the provision for trades below intrinsic value, and (iii) modify the provision for no bid series.

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 Last Name
Title
E-mail
Telephone Fax

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 By

(Name)

(Title)

NOTE: Clicking the button at right will digitally sign and lock
this form. A digital signature is as legally binding as a physical
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFT 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

☐

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 1 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 Rule 24.16, which is the Exchange’s rule applicable to the nullification and adjustment of transactions in index options, options on exchange-traded funds (“ETFs”) and options on HOLDing Company Depository ReceiptS (“HOLDERS”). The Exchange is proposing to amend the rule in order to: (i) modify the nullification and adjustment provisions for erroneous prints and erroneous quotes in the underlying; (ii) eliminate the nullification and adjustment provision for trades below intrinsic value; and (iii) modify the nullification provision for no bid series. 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 24.16. Nullification and Adjustment of Transactions in Index Options,
Options on ETFs and Options on HOLDERS

RULE 24.16. This Rule only governs the nullification and adjustment of transactions involving index options and options on ETFs or HOLDERS. Rule 6.25 governs the nullification and adjustment of transactions involving equity options. Paragraphs (a)(1)[.] and (5) [and (6)] of this Rule have no applicability to trades executed in open outcry.

(a) Trades Subject to Review

A member or person associated with a member may have a trade adjusted or nullified, as provided herein, if, in addition to satisfying the procedural requirements of paragraph (b) below, one of the following conditions is satisfied:

(1) – (2) No change.

(3) Erroneous Print in Underlying: A trade resulting from an erroneous print disseminated [by the underlying market]in the underlying instrument which is later cancelled or corrected [by that underlying market]in that underlying instrument may be adjusted or nullified. In order to be adjusted or nullified, however, the trade must be the result of an erroneous print that is higher or lower than the average trade in the underlying [security]instrument during a two-minute period before and after the erroneous print by an amount at least five times greater than the average quote width for such underlying [security]instrument during the same period.

For purposes of this [Rule,]paragraph (3): The underlying instrument(s), which may include securities and/or futures products, and the relevant underlying market(s) will be designated by the appropriate Exchange committee and announced to the membership via Regulatory Circular. T[t]he average trade in the underlying [security]instrument shall be determined by adding the prices of each trade during the four minute time period referenced above (excluding the trade in question) and dividing by the number of trades during such time period (excluding the trade in question). [For purposes of this Rule, t]The average quote width shall be determined by adding the quote widths of each separate quote during the four minute time period referenced above (excluding the quote in question) and dividing by the number of quotes during such time period (excluding the quote in question).

(4) Erroneous Quote in Underlying: A trade resulting from an erroneous quote in the underlying [security]instrument may be adjusted or nullified. An erroneous quote occurs when the underlying [security]instrument has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such underlying [security]instrument on the [primary]underlying market during the time period encompassing two minutes before and after the dissemination of such quote.

For purposes of this paragraph (4): The underlying instrument(s), which may include securities and/or futures products, and the relevant market(s) will be designated by the appropriate Exchange committee and announced to the membership via Regulatory Circular.

[(5) Trades Below Intrinsic Value: An obvious pricing error will be deemed to occur when the transaction price of an equity option is more than \$0.10 below the intrinsic value of the same option (an option that trades at its intrinsic value is sometimes said to trade at 'parity'). Paragraph (6) shall not apply to transactions occurring during the last two minutes of the trading day.]

[(i) Definition of Intrinsic Value: For purposes of this Rule, the intrinsic value of an equity call option equals the value of the underlying stock (measured from the bid or offer as described below) minus the strike price, and the intrinsic value of an equity put option equals the strike price minus the value of the underlying stock (measured from the bid or offer as described below), provided that in no case is the intrinsic value of an option less than zero. In the case of purchasing call options and selling put options, intrinsic value is measured by reference to the bid in the underlying security, and in the case of purchasing put options and selling call options, intrinsic value is measured by reference to the offer in the underlying security.]

[(6)](5) No Bid Series: Electronic transactions in series quoted no bid on the Exchange may[will] be nullified provided: (a) the bid in that series immediately preceding the execution was, and for five seconds prior to the execution remained, zero; and (b) at least one strike price below (for calls) or above (for puts) in the same options class was quoted no bid and offered at the same price or lower as that series at the time of execution.

For purposes of this paragraph (5), each group of series in an options class with a non-standard deliverable will be treated as a separate options class. In addition, when determining the quotes pursuant to this paragraph (5), bids and offers of the parties to the subject trade that are in any of the series in the same options class and are believed to be erroneous shall not be considered.

(b) Procedures for Reviewing Transactions

(1) Notification: Any member or person associated with a member that believes it participated in a transaction that may be adjusted or nullified in accordance with paragraph (a) must notify any Trading Official promptly but not later than fifteen (15) minutes after the execution in question. For transactions occurring after 2:45 p.m. (CT), notification must be provided promptly but not later than fifteen (15) minutes after the close of trading of that security on CBOE. Absent unusual circumstances, Trading Officials shall not grant relief under this Rule unless notification is made within the prescribed time periods.

In the absence of unusual circumstances, Trading Officials (either on their own motion or upon request of a member) must initiate action pursuant to paragraph (a)[(3)](2) above within sixty (60) minutes of the occurrence of the verifiable disruption or malfunction. When Trading Officials take action pursuant to paragraph (a)[(3)](2), the members involved in the transaction(s) shall receive verbal notification as soon as is practicable.

(2) No change.

(c) Adjustments and Nullifications

(1) No change.

(2) Transactions between CBOE Market-Makers pursuant to paragraphs (a)(2) – (a)[(5)](4) shall be nullified.

(3) Transactions involving at least one non-CBOE Market-Maker pursuant to paragraphs (a)(1) through (a)[(5)](4) will be adjusted provided the adjusted price does not violate the non-CBOE Market-Maker's limit price. Otherwise, the transaction will be nullified. [With respect to Rule 24.16(a)(1)(ii)(B) – (a)(4), t]The price to which a transaction shall be adjusted shall be the National Best Bid (Offer) immediately following the erroneous transaction with respect to a sell (buy) order entered on the Exchange. For ROS or HOSS transactions, the price to which a transaction shall be adjusted shall be based on the first non-erroneous quote after the erroneous transaction on CBOE. [With respect to Rule 24.16(a)(5), the transaction shall be adjusted to a price that is \$0.10 under parity.]

(d) No change.

(e) 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 February 20, 2007. 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

The Exchange is proposing to make various amendments to Rule 24.16, which is its obvious error rule pertaining to index options, options on ETFs and options on HOLDRS. First, the proposal would modify the rule's provisions pertaining to erroneous prints and erroneous quotes in the underlying. Currently, the rule provides that a trade resulting from an erroneous print disseminated in the underlying market which is later cancelled or corrected by that underlying market may be adjusted or nullified.¹ Similarly, the rule also provides that a trade resulting from an erroneous quote in the underlying security may be adjusted or nullified.² Under the revised rule, the appropriate Exchange committee would identify the particular underlying instrument(s) used to determine an erroneous print or quote and would also identify the relevant market(s) trading the underlying instrument to whom the Exchange would look for purposes of applying the obvious error analysis. The underlying

¹ Under the current rule, to be adjusted or nullified, the trade must be the result of an erroneous print that is higher or lower than the average trade in the underlying security during a two-minute period before and after the erroneous print by an amount at least five times greater than the average quote width for such underlying security during the same period. See Rule 24.16(a)(3).

² Under the current rule, an erroneous quote occurs when the underlying security has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such underlying security on the primary market during the time period encompassing two minutes before and after the dissemination of such quote. See Rule 24.15(a)(4).

instrument(s) may include securities and/or futures products, and the relevant underlying market(s) may include one or more markets. The underlying instrument(s) and relevant market(s) will be designated by the appropriate Exchange committee and announced to the membership via Regulatory Circular. Thus, for example, for a particular class of options on an ETF, the appropriate Exchange committee may determine to designate the underlying ETF and the primary market where it trades, as well as a related futures product and the primary market where that futures product trades, as the underlying interests that would be considered by the Exchange in determining whether an erroneous print or an erroneous quote in the “underlying” has occurred that would form the basis for an adjustment or nullification to a transaction in the overlying options.³

The proposed change is intended to address member feedback and to provide relief in those scenarios where an erroneous options transaction may occur as the result of an erroneous print or erroneous quote in markets other than the primary market for the

³ Using this example, under the revised rule, to be adjusted or nullified due to an erroneous print in the underlying, the trade must be the result of: (i) an erroneous print in the underlying ETF that is higher or lower than the average trade in the underlying ETF on the primary market during a two-minute period before and after the erroneous print by an amount at least five times greater than the average quote width for the ETF during the same period, or (ii) an erroneous print in the designated futures product that is higher or lower than the average trade in the designated futures product on the designated market during a two-minute period before and after the erroneous print by an amount at least five times greater than the average quote width for the futures product during the same period. See proposed changes to Rule 24.16(a)(3). To be adjusted or nullified due to an erroneous quote in the underlying, an erroneous quote would occur when: (i) the underlying ETF has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such ETF on the primary market during the time period encompassing two minutes before and after the dissemination of such quote, or (ii) the futures product has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such futures product on the designated market during the period encompassing two minutes before and after the dissemination of such quote. See proposed changes to Rule 24.15(a)(4).

underlying security. The Exchange believes the proposed change recognizes that market participants trading in the overlying index, ETF and HOLDRS options may base their options prices on trading in various products and markets, while maintaining reasonable and objective criteria for these types of obvious error reviews.

Second, the proposal would eliminate the nullification and adjustment provision for trades below intrinsic value. Rule 24.16(a)(5) currently states that an obvious pricing error will be deemed to have occur when the transaction price of an option series is more than \$0.10 below the intrinsic value of the same option. The purpose of deleting this provision is to account for circumstances under which options are correctly priced \$0.10 or more below the intrinsic value. For example, this might occur in options with underlying securities that are hard-to-borrow, extremely volatile issues where one market participant seeks to transfer the risk of selling or buying a security to other market participants by trading options, and options that are European-style exercise thus preventing exercise prior to expiration. Additionally, the Exchange notes that elimination of this provision is consistent with the Exchange's current rule for equity options, which does not have an obvious error review for trades below intrinsic value.

Third, the proposal would modify the nullification provision for no bid series. Currently, the rule simply provides that electronic transactions in series that are quoted no bid on the Exchange are subject to nullification provided that at least one strike price below (for calls) or above (for puts) in the same options class was quoted no bid at the time of execution. Under the revised rule, additional criteria and clarifying language would be added. Specifically, an electronic transaction in a series quoted no bid on the Exchange would be subject to nullification provided: (i) the bid in that series immediately preceding the

execution was, and for five (5) seconds prior to the execution remained, zero and (ii) at least one strike price below (for calls) or above (for puts) in the same options class was quoted no bid and offered at the same price or lower as that series at the time of execution. Thus, for example, if a trade occurs in the ABC 45 call option series when the series was quoted \$0.00 - \$0.10, the trade may be nullified if (i) the bid was at \$0.00 for at least five (5) seconds prior to the execution and (ii) at least one call option series in ABC with a strike below 45 (e.g., the ABC 30, 35 or 40 call option series) had a bid of \$0.00 and an offer of \$0.10 or less at the time of execution.

The revised no bid provision would also provide that each group of series in an options class with a non-standard deliverable will be treated as a separate options class. Thus, for example, if due to a reorganization certain of the series in the ABC option class have a deliverable of 150 shares per options contract (as compared to the standard 100 shares per option contract), all ABC option series that are subject to the 150 contract delivery requirements would be considered separately from the ABC option series that are subject to the 100 contract delivery requirements for purposes of applying the no bid provision. The revised rule would also provide that, when determining the Exchange's quotes in the relevant series, bids and offers of the parties to the subject trade that are in any of the series in the same options class and are believed to be erroneous shall not be considered. Thus, for example, if a member had a system error that caused it to quote a \$0.05 bid in all the series of an options class and a trade(s) resulted in some of those series, the erroneous \$0.05 bids would not be considered when determining the quoted market in the strike prices below (for calls) or above (for puts) each of the series for the subject trade(s). Finally, the revised rule

would clarify that the no bid provision is intended to apply to series quoted no bid on the Exchange (as opposed to series for which the national best bid is quoted no bid).

The proposed changes to the no bid provision are intended to address the Exchange's experience in applying the provision to particular trading scenarios that have occurred. The Exchange believes that the additional criteria and clarifications are reasonable and objective, and would serve to better identify instances where the no bid provision is intended to apply.

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act")⁴ and the rules and regulations thereunder and, in particular, the requirements of Section 6(b) of the Act.⁵ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁶ requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest.

Item 4. 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.

⁴ 15 U.S.C. 78s(b)(1).

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).

Item 5. 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.

Item 6. Extension of Time Period for Commission Action

The Exchange does not consent to an extension of the time-period for Commission action.

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

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-2007-03)

Dated: _____

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Amending its Obvious Error Rule for Options on Indices, ETFs and HOLDRS

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on _____, 2007, the Chicago Board Options Exchange, Incorporated (the “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 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 Rule 24.16, which is the Exchange’s rule applicable to the nullification and adjustment of transactions in index options, options on exchange-traded funds (“ETFs”) and options on HOLDing Company Depository Receipts (“HOLDRS”). The Exchange is proposing to amend the rule in order to: (i) modify the nullification and adjustment provisions for erroneous prints and erroneous quotes in the underlying; (ii) eliminate the nullification and adjustment provision for trades below intrinsic value; and (iii) modify the nullification provision for no bid series. The text of the proposed

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

rule change is available on the Exchange's website (<http://www.cboe.org/legal>), at the Office of the Secretary, CBOE 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

The Exchange is proposing to make various amendments to Rule 24.16, which is its obvious error rule pertaining to index options, options on ETFs and options on HOLDRS. First, the proposal would modify the rule's provisions pertaining to erroneous prints and erroneous quotes in the underlying. Currently, the rule provides that a trade resulting from an erroneous print disseminated in the underlying market which is later cancelled or corrected by that underlying market may be adjusted or nullified.³ Similarly, the rule also provides that a trade resulting from an erroneous quote in the underlying security may be

³ Under the current rule, to be adjusted or nullified, the trade must be the result of an erroneous print that is higher or lower than the average trade in the underlying security during a two-minute period before and after the erroneous print by an amount at least five times greater than the average quote width for such underlying security during the same period. See Rule 24.16(a)(3).

adjusted or nullified.⁴ Under the revised rule, the appropriate Exchange committee would identify the particular underlying instrument(s) used to determine an erroneous print or quote and would also identify the relevant market(s) trading the underlying instrument to whom the Exchange would look for purposes of applying the obvious error analysis. The underlying instrument(s) may include securities and/or futures products, and the relevant underlying market(s) may include one or more markets. The underlying instrument(s) and relevant market(s) will be designated by the appropriate Exchange committee and announced to the membership via Regulatory Circular. Thus, for example, for a particular class of options on an ETF, the appropriate Exchange committee may determine to designate the underlying ETF and the primary market where it trades, as well as a related futures product and the primary market where that futures product trades, as the underlying interests that would be considered by the Exchange in determining whether an erroneous print or an erroneous quote in the “underlying” has occurred that would form the basis for an adjustment or nullification to a transaction in the overlying options.⁵

⁴ Under the current rule, an erroneous quote occurs when the underlying security has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such underlying security on the primary market during the time period encompassing two minutes before and after the dissemination of such quote. See Rule 24.15(a)(4).

⁵ Using this example, under the revised rule, to be adjusted or nullified due to an erroneous print in the underlying, the trade must be the result of: (i) an erroneous print in the underlying ETF that is higher or lower than the average trade in the underlying ETF on the primary market during a two-minute period before and after the erroneous print by an amount at least five times greater than the average quote width for the ETF during the same period, or (ii) an erroneous print in the designated futures product that is higher or lower than the average trade in the designated futures product on the designated market during a two-minute period before and after the erroneous print by an amount at least five times greater than the average quote width for the futures product during the same period. See proposed changes to Rule

The proposed change is intended to address member feedback and to provide relief in those scenarios where an erroneous options transaction may occur as the result of an erroneous print or erroneous quote in markets other than the primary market for the underlying security. The Exchange believes the proposed change recognizes that market participants trading in the overlying index, ETF and HOLDRS options may base their options prices on trading in various products and markets, while maintaining reasonable and objective criteria for these types of obvious error reviews.

Second, the proposal would eliminate the nullification and adjustment provision for trades below intrinsic value. Rule 24.16(a)(5) currently states that an obvious pricing error will be deemed to have occur when the transaction price of an option series is more than \$0.10 below the intrinsic value of the same option. The purpose of deleting this provision is to account for circumstances under which options are correctly priced \$0.10 or more below the intrinsic value. For example, this might occur in options with underlying securities that are hard-to-borrow, extremely volatile issues where one market participant seeks to transfer the risk of selling or buying a security to other market participants by trading options, and options that are European-style exercise thus preventing exercise prior to expiration. Additionally, the Exchange notes that elimination of this provision is consistent with the

24.16(a)(3). To be adjusted or nullified due to an erroneous quote in the underlying, an erroneous quote would occur when: (i) the underlying ETF has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such ETF on the primary market during the time period encompassing two minutes before and after the dissemination of such quote, or (ii) the futures product has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such futures product on the designated market during the period encompassing two minutes before and after the dissemination of such quote. See proposed changes to Rule 24.15(a)(4).

Exchange's current rule for equity options, which does not have an obvious error review for trades below intrinsic value.

Third, the proposal would modify the nullification provision for no bid series. Currently, the rule simply provides that electronic transactions in series that are quoted no bid on the Exchange are subject to nullification provided that at least one strike price below (for calls) or above (for puts) in the same options class was quoted no bid at the time of execution. Under the revised rule, additional criteria and clarifying language would be added. Specifically, an electronic transaction in a series quoted no bid on the Exchange would be subject to nullification provided: (i) the bid in that series immediately preceding the execution was, and for five (5) seconds prior to the execution remained, zero and (ii) at least one strike price below (for calls) or above (for puts) in the same options class was quoted no bid and offered at the same price or lower as that series at the time of execution. Thus, for example, if a trade occurs in the ABC 45 call option series when the series was quoted \$0.00 - \$0.10, the trade may be nullified if (i) the bid was at \$0.00 for at least five (5) seconds prior to the execution and (ii) at least one call option series in ABC with a strike below 45 (e.g., the ABC 30, 35 or 40 call option series) had a bid of \$0.00 and an offer of \$0.10 or less at the time of execution.

The revised no bid provision would also provide that each group of series in an options class with a non-standard deliverable will be treated as a separate options class. Thus, for example, if due to a reorganization certain of the series in the ABC option class have a deliverable of 150 shares per options contract (as compared to the standard 100 shares per option contract), all ABC option series that are subject to the 150 contract delivery

requirements would be considered separately from the ABC option series that are subject to the 100 contract delivery requirements for purposes of applying the no bid provision. The revised rule would also provide that, when determining the Exchange's quotes in the relevant series, bids and offers of the parties to the subject trade that are in any of the series in the same options class and are believed to be erroneous shall not be considered. Thus, for example, if a member had a system error that caused it to quote a \$0.05 bid in all the series of an options class and a trade(s) resulted in some of those series, the erroneous \$0.05 bids would not be considered when determining the quoted market in the strike prices below (for calls) or above (for puts) each of the series for the subject trade(s). Finally, the revised rule would clarify that the no bid provision is intended to apply to series quoted no bid on the Exchange (as opposed to series for which the national best bid is quoted no bid).

The proposed changes to the no bid provision are intended to address the Exchange's experience in applying the provision to particular trading scenarios that have occurred. The Exchange believes that the additional criteria and clarifications are reasonable and objective, and would serve to better identify instances where the no bid provision is intended to apply.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act⁶ and the rules and regulations thereunder 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 Section 6(b)(5)⁸ requirements that the rules of an exchange be designed to promote just and

⁶ 15 U.S.C. 78s(b)(1).

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to 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

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

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 self-regulatory organization 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.

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-2007-03 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.

All submissions should refer to File Number SR-CBOE-2007-03. 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 20549-1090. 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-2007-03 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.⁹

Dated: _____

Nancy M. Morris
Secretary

⁹ 17 CFR 200.30-3(a)(12).