

OMB APPROVAL

OMB Number: 3235-0045

Expires: June 30, 2007

Estimated average burden
hours per response.....38

Page 1 of 15

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

File No. SR - 2007 - 08

Amendment No. Proposed Rule Change by Chicago Board Options Exchange
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934Initial ☒ 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 2 Sent As Paper Document ☒Exhibit 3 Sent As Paper Document ☒

Description

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

Proposal to create six month pilot exempting IWM options from Rule 4.11 Pilot Program, during which time the position and exercise limits for IWM options would be increased to 500,000.

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 Klebes
Title Senior Attorney
E-mail klebes@cboe.com
Telephone (312) 786-7466 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 01/19/2007

By Jennifer Klebes

(Name)

Senior Attorney/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.



SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information

[Add](#) [Remove](#) [View](#)

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

[Add](#) [Remove](#) [View](#)

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

[Add](#) [Remove](#) [View](#)

Exhibit Sent As Paper Document

☐

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

[Add](#) [Remove](#) [View](#)

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

[Add](#) [Remove](#) [View](#)

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

[Add](#) [Remove](#) [View](#)

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

[Add](#) [Remove](#) [View](#)

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 Proposed Rule Change

(a) The Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") is proposing to amend Rule 4.11 to exempt options on the iShares® Russell 2000® Index Fund ("IWM") from the position and exercise limits provided for under the Rule 4.11 Pilot Program and to increase the standard position and exercise limits for IWM as part of a six-month pilot ("Rule 4.11 IWM Pilot Program"). Set forth below are proposed changes to the rule text, with additions represented by underscoring.

(b) Not applicable.

(c) Not applicable.

* * * * *

Chicago Board Options Exchange, Incorporated

Rules

* * * * *

Rule 4.11 – Position Limits

RULE 4.11 No change.

...Interpretations and Policies:

.01 - .06 No change.

.07 The position limits under Rule 4.11 applicable to options on shares or other securities that represent interests in registered investment companies (or series thereof) organized as open-end management investment companies, unit investment trusts or similar entities that satisfy the criteria set forth in Interpretation and Policy .06 under Rule 5.3 shall be the same as the position limits applicable to equity options under Rule 4.11 and Interpretations and Policies thereunder. The position limits under Rule 4.11 applicable to options on the Nasdaq-100 Index Tracking Stock [SM] ® ("QQQQ"), the Standard and Poor's Depositary Receipts Trust (SPDR), and the DIAMONDS Trust (DIA) shall be 300,000 option contracts, except that during the 4.11 Pilot Program Period the position limit on the QQQQ shall be 900,000 contracts. In addition options on the iShares® Russell 2000® Index Fund (IWM): (A) shall be exempt from the 4.11 Pilot Program on a pilot basis, which shall run from January 22, 2007 through June 22, 2007 ("Rule 4.11

IWM Pilot Program Period"); and (B) during the Rule 4.11 IWM Pilot Program Period, shall have position limits under Rule 4.11 of 500,000 option contracts.

* * * * *

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 January 19, 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 to Jennifer Klebes, (312) 786-7466.

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

(a) Purpose

The Exchange proposes to amend Interpretation and Policy .07 to Rule 4.11 on a six-month pilot basis to exempt options on the iShares® Russell 2000® Index Fund ("IWM") from the Rule 4.11 Pilot Program. Under the Rule 4.11 Pilot Program, the position and exercise limits for IWM would be reduced on January 22, 2007 from 500,000 to 250,000 contracts. The Exchange now proposes to allow position and exercise limits for options on IWM to remain at 500,000 contracts on a pilot basis, from January 22, 2007 through June 22, 2007.

In June 2005, as a result of a 2-for-1 stock split, the position limit for IWM options was temporarily increased from 250,000 contracts (covering 25,000,000 shares) to 500,000 contracts (covering 50,000,000 shares). At the time of the split, the furthest IWM option expiration date was January 2007. Therefore, the temporary increase of the

IWM position limit will revert to the pre-split level (as provided for in connection with the Rule 4.11 Pilot Program) of 250,000 contracts after expiration in January 2007, or on January 22, 2007¹.

The Exchange believes that a position limit of 250,000 contracts is too low and may be a deterrent to the successful trading of IWM options. Importantly, options on IWM are 1/10th the size of options on the Russell 2000[®] Index, which have a position limit of 50,000 contracts.² Traders who trade IWM options to hedge positions in RUT options are likely to find a position limit of 250,000 contracts in IWM options too restrictive and insufficient to properly hedge. For example, if a trader held 50,000 RUT options and wanted to hedge that position with IWM options, the trader would need – at a minimum- 500,000 IWM options to properly hedge the position. Therefore, the Exchange believes that a position limit of 250,000 contracts is too low and may adversely affect market participants' ability to provide liquidity in this product.

Additionally, IWM options have grown to become one of the largest options contracts in terms of trading volume. For example, the volume in options on IWM set a new single-day record on June 8, 2006, when 760,803 contracts (120,229 calls and 640,574 puts) traded on that day. This record level volume beat the previous single-day high of 727,521 contracts on May 17, 2006. Further, over the previous six months, the

¹ See CBOE Research Circular #RS05-380, at p. 12.

² See CBOE Rule 24.4(a); see also Exchange Act Release No. 45309 (Jan. 18, 2002), 67 FR 3757 (Jan. 25, 2002) (increase of position and exercise limits to 300,000 for QQQ options); Exchange Act Release No. 47346 (Feb. 11, 2003), 68 FR 8316 (Feb. 20, 2003) (increase of position and exercise limits to 300,000 for DIA options); Exchange Act Release No. 51041 (Jan. 14, 2005), 70 FR 3408 (Jan. 24, 2005) (accelerated approval granted to increase position and exercise limits for options on Standard and Poor's Depositary Receipts[®] from 75,000 to 300,000).

average daily CBOE trading volume of IWM options has been 187,190 contracts and a total of 23,960,382 contracts have traded on the Exchange.

As a result, the Exchange proposes that options on IWM be subject to position and exercise limits of 500,000 contracts on a pilot basis to run from January 22, 2007 through June 22, 2007.³ The Exchange believes that increasing position and exercise limits for IWM options will lead to a more liquid and more competitive market environment for IWM options that will benefit customers interested in this product.

The Exchange will require that each member or member organization that maintains a position on the same side of the market in excess of 10,000 contracts in the IWM option class, for its own account or for the account of a customer report certain information.⁴ This data would include, but would not be limited to, the option position, whether such position is hedged and if so, a description of the hedge and if applicable, the collateral used to carry the position. Exchange market-makers (including DPMs) would continue to be exempt from this reporting requirement as market-maker information can be accessed through the Exchange's market surveillance systems. In addition, the general reporting requirement for customer accounts that maintain a position in excess of 200 contracts will remain at this level for IWM options.⁵

³ Pursuant to Interpretation and Policy .02 to CBOE Rule 4.12, the exercise limit established under Rule 4.12 for IWM options shall be equivalent to the position limit prescribed for IWM options in Interpretation and Policy .07 under Rule 4.11. The increased exercise limits would only be in effect during the pilot period, to run from January 22, 2007 through June 22, 2007.

⁴ See CBOE Rule 4.13(b).

⁵ See CBOE Rule 4.13(a).

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with and furthers the objectives of Section 6(b)(5) of the Act, in that it is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of 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

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 with respect to the proposed rule change.

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 Act⁶.

(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) by its terms, will not become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate, if

⁶ 15 U.S.C. 78s(b)(3)(A)

consistent with the protection of investors and the public interest. The Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change.⁷ For the foregoing reasons, this rule filing qualifies for expedited effectiveness as a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 of the Act.

To the extent necessary, the Exchange respectfully requests that the Commission waive the 5 day pre-filing requirement and the 30 day period for this filing to become operative so that it may become effective and operative upon filing with the Commission pursuant to Section 19(b)(3)(A)⁸ of the Act and subparagraph (f)(6) of Rule 19b-4 thereunder. Waiver of the 30-day pre-operative delay will allow ensure sufficient flexibility with regards to the position and exercise limits for options on IWM and would promote a fair, orderly and competitive options market.

(c) Not applicable.

(d) Not applicable.

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

Not applicable.

Item 9. Exhibits

Exhibit 1. Form of Notice of Proposed Rule Change for publication in the Federal Register.

⁷ 17 C.F.R. 240.19b-4(f)(6).

⁸ 15 U.S.C. 78s(b)(3)(A).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-CBOE-2007-08)

Dated: _____

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Establishment of a Pilot Program That Increases Position and Exercise Limits for Options on the iShares® Russell 2000® Index Fund

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 (“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 Act³ and Rule 19b-4(f)(6) thereunder.⁴ 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 Chicago Board Options Exchange, Incorporated (“CBOE” or “Exchange”) is proposing to amend Rule 4.11 to exempt options on the iShares® Russell 2000® Index Fund

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

("IWM") from the position and exercise limits provided for under the Rule 4.11 Pilot Program and to increase the standard position and exercise limits for IWM as part of a six-month pilot ("Rule 4.11 IWM Pilot Program"). The text of the proposed rule change is available on the Exchange's website (<http://www.cboe.com>), 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 proposes to amend Interpretation and Policy .07 to Rule 4.11 on a six-month pilot basis to exempt options on the iShares[®] Russell 2000[®] Index Fund ("IWM") from the Rule 4.11 Pilot Program. Under the Rule 4.11 Pilot Program, the position and exercise limits for IWM would be reduced on January 22, 2007 from 500,000 to 250,000 contracts. The Exchange now proposes to allow position and exercise limits for options on IWM to remain at 500,000 contracts on a pilot basis, from January 22, 2007 through June 22, 2007.

In June 2005, as a result of a 2-for-1 stock split, the position limit for IWM options was temporarily increased from 250,000 contracts (covering 25,000,000 shares) to 500,000

contracts (covering 50,000,000 shares). At the time of the split, the furthest IWM option expiration date was January 2007. Therefore, the temporary increase of the IWM position limit will revert to the pre-split level (as provided for in connection with the Rule 4.11 Pilot Program) of 250,000 contracts after expiration in January 2007, or on January 22, 2007⁵.

The Exchange believes that a position limit of 250,000 contracts is too low and may be a deterrent to the successful trading of IWM options. Importantly, options on IWM are 1/10th the size of options on the Russell 2000[®] Index, which have a position limit of 50,000 contracts.⁶ Traders who trade IWM options to hedge positions in RUT options are likely to find a position limit of 250,000 contracts in IWM options too restrictive and insufficient to properly hedge. For example, if a trader held 50,000 RUT options and wanted to hedge that position with IWM options, the trader would need – at a minimum- 500,000 IWM options to properly hedge the position. Therefore, the Exchange believes that a position limit of 250,000 contracts is too low and may adversely affect market participants' ability to provide liquidity in this product.

Additionally, IWM options have grown to become one of the largest options contracts in terms of trading volume. For example, the volume in options on IWM set a new single-day record on June 8, 2006, when 760,803 contracts (120,229 calls and 640,574 puts) traded on that day. This record level volume beat the previous single-day high of 727,521 contracts on May 17, 2006. Further, over the previous six months, the average daily CBOE

⁵ See CBOE Research Circular #RS05-380, at p. 12.

⁶ See CBOE Rule 24.4(a); see also Exchange Act Release No. 45309 (Jan. 18, 2002), 67 FR 3757 (Jan. 25, 2002) (increase of position and exercise limits to 300,000 for QQQ options); Exchange Act Release No. 47346 (Feb. 11, 2003), 68 FR 8316 (Feb. 20, 2003) (increase of position and exercise limits to 300,000 for DIA options); Exchange Act Release No. 51041 (Jan. 14, 2005), 70 FR 3408 (Jan. 24, 2005) (accelerated approval granted to increase position and exercise limits for options on Standard and Poor's Depositary Receipts[®] from 75,000 to 300,000).

trading volume of IWM options has been 187,190 contracts and a total of 23,960,382 contracts have traded on the Exchange.

As a result, the Exchange proposes that options on IWM be subject to position and exercise limits of 500,000 contracts on a pilot basis to run from January 22, 2007 through June 22, 2007.⁷ The Exchange believes that increasing position and exercise limits for IWM options will lead to a more liquid and more competitive market environment for IWM options that will benefit customers interested in this product.

The Exchange will require that each member or member organization that maintains a position on the same side of the market in excess of 10,000 contracts in the IWM option class, for its own account or for the account of a customer report certain information.⁸ This data would include, but would not be limited to, the option position, whether such position is hedged and if so, a description of the hedge and if applicable, the collateral used to carry the position. Exchange market-makers (including DPMs) would continue to be exempt from this reporting requirement as market-maker information can be accessed through the Exchange's market surveillance systems. In addition, the general reporting requirement for customer accounts that maintain a position in excess of 200 contracts will remain at this level for IWM options.⁹

⁷ Pursuant to Interpretation and Policy .02 to CBOE Rule 4.12, the exercise limit established under Rule 4.12 for IWM options shall be equivalent to the position limit prescribed for IWM options in Interpretation and Policy .07 under Rule 4.11. The increased exercise limits would only be in effect during the pilot period, to run from January 22, 2007 through June 22, 2007.

⁸ See CBOE Rule 4.13(b).

⁹ See CBOE Rule 4.13(a).

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with and furthers the objectives of Section 6(b)(5) of the Act, in that it is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of 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-2007-08 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-2007-08. 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-2007-08 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.¹⁰

Dated: _____

Nancy M. Morris
Secretary

¹⁰ 17 CFR 200.30-3(a)(12).