

OMB APPROVAL

OMB Number: 3235-0045
Expires: June 30, 2007
Estimated average burden
hours per response.....38

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

File No. SR - 2007 - 34

Amendment 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 type="checkbox"/>	Section 19(b)(3)(A) <input checked="" type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action <input type="checkbox"/>			<input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input checked="" 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)		

☐ I am submitting this Form 19b-4 pursuant to Rule 19b-4(f)(1) of the Securities Exchange Act of 1934.
☐ I am submitting this Form 19b-4 pursuant to Rule 19b-4(f)(2) of the Securities Exchange Act of 1934.

Description

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

Proposed rule change regarding subsidy arrangements with members that provide or use certain order routing functionalities.

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 officer.

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
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 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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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 Sent As Paper Document

☐

Exhibit 3 - Form, Report, or Questionnaire

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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 Sent As Paper Document

☐

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

Chicago Board Options Exchange, Incorporated ("Exchange" or "CBOE") proposes to enter into subsidy arrangements with CBOE members that provide certain order routing functionalities to other CBOE members and/or use such functionalities themselves. This rule change does not provide for any modifications to the text of CBOE's rules.

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 April 4, 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, Arthur Reinstein (312) 786-7570, or Patrick Sexton (312) 786-7467.

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

(a) Purpose

CBOE proposes to enter into subsidy arrangements with CBOE members that provide certain order routing functionalities to other CBOE members and/or use such functionalities themselves.¹ To qualify for the subsidy arrangement, a member's order routing functionality would have to: enable the electronic routing of orders to all of the U.S. options exchanges, including CBOE; provide current consolidated market data from the U.S. options exchanges; and be capable of interfacing with CBOE's API to access current CBOE trade engine functionality. The routing system would also need to cause

¹The CBOE might in the future submit to the SEC a proposed rule change to include arrangements with third party vendors that are not CBOE members.

CBOE to be the default destination exchange for individually executed marketable orders if CBOE is at the national best bid or offer ("NBBO"), regardless of size or time, but allow any user to manually override CBOE as the default destination on an order-by-order basis. The order routing functionality would be required to incorporate a function allowing orders at a specified price to be sent to multiple exchanges with a single click (a "sweep function") and the sweep function would need to be configured to cause an order to be sent to CBOE for up to the full size quoted by CBOE if CBOE is at the NBBO.² Any CBOE member would be permitted to avail itself of this arrangement, provided that its order routing functionality incorporates the features described above and satisfies CBOE that it appears to be robust and reliable. The member would be solely responsible for implementing and operating its system.

CBOE is proposing to make payments to participating CBOE members to subsidize their costs of providing the routing services. The payment would be \$0.05 per contract for orders routed to CBOE through a participating member's system. The participating member would have to agree that it would not be entitled to receive any other revenue for the use of its system specifically with respect to orders routed to

²For example, if a CBOE member were to enter an order to buy 250 contracts using the sweep function at a time when CBOE is at the NBBO for 100 contracts, the sweep function would need to be configured to send an order for 100 contracts to CBOE, with the balance of the order routed as specified by the member entering the order from the configurations offered by the routing functionality.

Nothing would require that a person using the routing functionality actually use the sweep function, and, in this same example, if the CBOE member wished to route the entire order for 250 contracts to an exchange other than CBOE using the routing functionality, it would be free to manually override CBOE as the default destination for the entire order.

CBOE.³

A participating CBOE member could also elect to have CBOE perform certain additional marketing services on its behalf. These services would consist of including the member's functionality in the general marketing activities of CBOE's marketing staff. CBOE would permit a member electing to have CBOE perform these services place CBOE's "HyTS" trademark on its order routing functionality in a manner satisfactory to CBOE. If a member elects to have CBOE perform these services, the amount that CBOE pays the member for orders routed to CBOE through the participating member's system would be reduced from \$0.05 per contract to \$0.04 per contract. The minimum term of these services would be one year, after which a member could terminate the marketing services effective at the end of a calendar month.

A participating CBOE member could also elect to have CBOE perform the service of billing other CBOE members with respect to the use of the participating CBOE member's router. A participating member that elects to have CBOE perform this service would pay CBOE a service fee of one percent of the fees collected by CBOE for that member. A member could terminate this service at the end of any calendar month.

Nothing about the subsidy arrangement would relieve any CBOE member that is using an order routing functionality provided by another member or its own functionality from complying with its best execution obligations. Specifically, just as with any customer order and any other routing functionality, a member would have an obligation to consider the availability of price improvement at various markets and whether routing

³This requirement would not prevent the participating member from charging fees (for example, a flat monthly fee) for the general use of its order routing system. Nor would it prevent the participating member from charging fees or commissions in accordance with its general practices with respect to transactions effected through its system.

a customer order through a functionality that incorporates the features described above would allow for access to such opportunities if readily available. Moreover, a member would need to conduct best execution evaluations on a regular basis, at a minimum quarterly, that include its use of any router incorporating the features described above.

(b) Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 ("Act")⁴, in general, and furthers the objectives of Section 6(b)(4)⁵ of the Act in particular, in that it is designed to provide for the equitable allocation of reasonable dues, fees, and other charges among CBOE members and other persons using its facilities.

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.

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) or Section 19(b)(7)(D)

(a) The Exchange is filing the proposed rule change for effectiveness upon

⁴15 U.S.C. 78f(b).

⁵15 U.S.C. 78f(b)(4).

filing under Section 19(b)(3)(A) of the Act.⁶

(b) The Exchange is filing the proposed rule change for effect immediately upon filing under Section 19(b)(3)(A) of the Act⁷ as the establishment of a due, fee, or other charge. The proposed subsidy arrangement relates to fees charged by vendors to members for use of the routing system. The Commission has requested that self-regulatory organizations file for "regular way" consideration fee filings involving non-members due to the lack of input by non-members in the development of proposed rule changes. This filing will only involve vendors who are CBOE members. Accordingly, the Exchange believes it is appropriate to file the proposed rule change for immediate effectiveness.

(c) Not applicable.

(d) Not applicable.

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

Not applicable.

Item 9. Exhibits

List of exhibits to be filed:

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

⁶15 U.S.C. 78s(b)(3)(A).

⁷15 U.S.C. 78s(b)(3)(A).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____ ; File No. SR-CBOE-2007-34)

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by Chicago Board Options Exchange, Incorporated Regarding Subsidy Arrangements with Members that Provide or Use Certain Order Routing Functionalities

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, 15 U.S.C. 78s(b)(1), notice is hereby given that on _____, the Chicago Board Options Exchange, Incorporated ("CBOE" or the "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the CBOE. The Commission is publishing this notice to solicit comments on the proposed rule change from interested parties.

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

The CBOE proposes to enter into subsidy arrangements with CBOE members that provide certain order routing functionalities to other CBOE members and/or use such functionalities themselves. This rule change does not provide for any modifications to the text of CBOE's rules. 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, CBOE 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 these statements may be examined at the places specified in Item IV below. The CBOE has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

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

(a) Purpose

CBOE proposes to enter into subsidy arrangements with CBOE members that provide certain order routing functionalities to other CBOE members and/or use such functionalities themselves.¹ To qualify for the subsidy arrangement, a member's order routing functionality would have to: enable the electronic routing of orders to all of the U.S. options exchanges, including CBOE; provide current consolidated market data from the U.S. options exchanges; and be capable of interfacing with CBOE's API to access current CBOE trade engine functionality. The routing system would also need to cause CBOE to be the default destination exchange for individually executed marketable orders if CBOE is at the national best bid or offer ("NBBO"), regardless of size or time, but allow any user to manually override CBOE as the default destination on an order-by-order basis. The order routing functionality would be required to incorporate a function allowing orders at a specified price to be sent to multiple exchanges with a single click (a "sweep function") and the sweep function would need to be configured to cause an order to be sent to CBOE for up to the full size quoted by CBOE if CBOE is at the NBBO.²

¹The CBOE might in the future submit to the SEC a proposed rule change to include arrangements with third party vendors that are not CBOE members.

²For example, if a CBOE member were to enter an order to buy 250 contracts using the sweep function at a time when CBOE is at the NBBO for 100 contracts, the sweep function would need to be configured to send an order for 100 contracts to CBOE, with the balance of the

Any CBOE member would be permitted to avail itself of this arrangement, provided that its order routing functionality incorporates the features described above and satisfies CBOE that it appears to be robust and reliable. The member would be solely responsible for implementing and operating its system.

CBOE is proposing to make payments to participating CBOE members to subsidize their costs of providing the routing services. The payment would be \$0.05 per contract for orders routed to CBOE through a participating member's system. The participating member would have to agree that it would not be entitled to receive any other revenue for the use of its system specifically with respect to orders routed to CBOE.³

A participating CBOE member could also elect to have CBOE perform certain additional marketing services on its behalf. These services would consist of including the member's functionality in the general marketing activities of CBOE's marketing staff. CBOE would permit a member electing to have CBOE perform these services place CBOE's "HyTS" trademark on its order routing functionality in a manner satisfactory to CBOE. If a member elects to have CBOE perform these services, the amount that CBOE pays the member for orders routed to CBOE through the participating member's system

order routed as specified by the member entering the order from the configurations offered by the routing functionality.

Nothing would require that a person using the routing functionality actually use the sweep function, and, in this same example, if the CBOE member wished to route the entire order for 250 contracts to an exchange other than CBOE using the routing functionality, it would be free to manually override CBOE as the default destination for the entire order.

³This requirement would not prevent the participating member from charging fees (for example, a flat monthly fee) for the general use of its order routing system. Nor would it prevent the participating member from charging fees or commissions in accordance with its general practices with respect to transactions effected through its system.

would be reduced from \$0.05 per contract to \$0.04 per contract. The minimum term of these services would be one year, after which a member could terminate the marketing services effective at the end of a calendar month.

A participating CBOE member could also elect to have CBOE perform the service of billing other CBOE members with respect to the use of the participating CBOE member's router. A participating member that elects to have CBOE perform this service would pay CBOE a service fee of one percent of the fees collected by CBOE for that member. A member could terminate this service at the end of any calendar month.

Nothing about the subsidy arrangement would relieve any CBOE member that is using an order routing functionality provided by another member or its own functionality from complying with its best execution obligations. Specifically, just as with any customer order and any other routing functionality, a member would have an obligation to consider the availability of price improvement at various markets and whether routing a customer order through a functionality that incorporates the features described above would allow for access to such opportunities if readily available. Moreover, a member would need to conduct best execution evaluations on a regular basis, at a minimum quarterly, that include its use of any router incorporating the features described above.

(b) Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 ("Act")⁴, in general, and furthers the objectives of Section 6(b)(4)⁵ of the Act

⁴15 U.S.C. 78f(b).

⁵15 U.S.C. 78f(b)(4).

in particular, in that it is designed to provide for the equitable allocation of reasonable dues, fees, and other charges among CBOE members and other persons using its facilities.

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 that is not necessary or appropriate in furtherance of 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 change establishes or changes a due, fee, or other charge imposed by the Exchange, it has become effective pursuant to Section 19(b)(3)(A) of the Act⁶ and subparagraph (f)(2) of Rule 19b-4⁷ thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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:

⁶15 U.S.C. 78s(b)(3)(A).

⁷17 C.F.R. 240.19b-4(f)(2).

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-2007-34 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, D.C. 20549-1090.

All submissions should refer to File Number SR-CBOE-2007-34. 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. 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-2007-34 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.⁸

Nancy M. Morris
Secretary

⁸17 C.F.R. 200.30-3(a)(12).