

OMB APPROVAL

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

File No. SR - 2007 - 39

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 checked="" type="checkbox"/>	Section 19(b)(3)(A) <input type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
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Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action <input type="checkbox"/>	Date Expires <input type="text"/>
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Rule

<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)

Exhibit in Submit As Paper Document



Exhibit in Submit As Paper Document

**Description**

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

This filing proposes to amend CBOE rules in connection with penny increment price improvement.

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	Angelo	Last Name	Evangelou
Title	Assistant General Counsel		
E-mail	evangelou@cboe.com		
Telephone	(312) 786-7464	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 officer.

Date 04/24/2007

By Angelo Evangelou

(Name)

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.

Angelo Evangelou: evangelou@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

☐

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 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 its rules in connection with penny-increment price-improvement. 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 6.13B. Penny Price Improvement

The Exchange may designate one or more options trading on the Hybrid System for inclusion in the Penny Price Improvement Program. Under this program, the Exchange will allow all users to provide price improvement beyond the Exchange’s disseminated quotation (“Penny Pricing”) for classes or series that are not already quoted in one-cent increments and for which the Simple Auction Liaison system in Rule 6.13A is not in effect.

(a) Electronic Penny Pricing. Electronic penny prices may be established as follows:

(1) Market-Makers. Market-Makers may electronically provide the Exchange with indications of interest that are superior to their own quotations in increments no smaller than one-cent. Such indications shall be firm for all interest received by the Exchange. The Exchange shall disseminate such interest using standard quoting increments by rounding the limit price to the nearest standard quoting increment that does not violate the limit price.

(2) Orders. Public Customers and all other users may electronically submit to the Exchange orders priced in one-cent increments. The Exchange shall disseminate such orders using standard quoting increments by rounding the limit price to the nearest standard quoting increment that does not violate the limit price.

All Penny Pricing submitted pursuant to (1) or (2) above shall be filed by the System for order allocation purposes but shall not be visible. The Exchange may append an indicator to its disseminated quotation to indicate the existence of Penny Pricing in the relevant side of a series when it exists, but no information regarding the price and size of the Penny Pricing shall be made available.

If an order is received by the Hybrid System that could trade against Penny Pricing and where the Exchange's disseminated quotation is the NBBO, it will automatically execute against the Penny Pricing pursuant to the Exchange's normal allocation procedures.

(b) Open Outcry Penny Pricing. Oral bids (offers) provided by in-crowd market participants may be expressed in one-cent increments in response to an order represented in open outcry provided that: (1) the oral bids (offers) better the corresponding bid (offer) in the Exchange's disseminated quotation; and (2) any resulting transaction(s) is consistent with the requirements of Rule 6.83.

The appropriate Procedure Committee may also determine on a class-by-class basis to make the split-price priority provisions of Rule 6.47 applicable to a class that is subject to Penny Pricing under this rule.

For purposes of this rule, "in-crowd market participants" includes in-crowd Market-Makers, an in-crowd DPM or LMM, and Floor Brokers or PAR Officials representing orders in the trading crowd.

(c) Prior to effecting any transactions in open outcry in one-cent increments, Exchange members must electronically "sweep" any Penny Pricing interest in the Hybrid System so as not to violate the priority of such Penny Pricing.

(d) All pronouncements regarding the applicability of this rule will be announced to the membership via Regulator Circular.

* * * * *

Rule 6.45 Priority of Bids and Offers - Allocation of Trades

Except as provided by Rules, including but not limited to Rule 6.2A, 6.8, 6.9, 6.13, 6.13B, 6.45A, [Rule] 6.47, [Rule] 6.74, [Rule] 8.87 and [CBOE] Exchange Regulatory Circulars approved by the [SEC] Commission concerning Participation Entitlements [Rights], the following rules of priority shall be observed with respect to bids and offers:

(a)-(e) No change.

...Interpretations and Policies:

.01-.02 No change.

* * * * *

Rule 6.45A Priority and Allocation of Equity Option Trades on the CBOE Hybrid System

6.45A *Generally:* No change.

(a) – (e) No change.

...Interpretations and Policies:

.01 Principal Transactions: Order entry firms may not execute as principal against orders they represent as agent unless: (i) agency orders are first exposed on the Hybrid System for at least three (3) seconds, (ii) the order entry firm has been bidding or offering for at least (3) seconds prior to receiving an agency order that is executable against such bid or offer, or (iii) the order entry firm proceeds in accordance with the crossing rules contained in Rule 6.74. This paragraph also shall apply to orders resting on the Hybrid System in penny increments pursuant to Rule 6.13B. In such cases, agency orders priced in penny increments are deemed “exposed” pursuant to (i) above, and order entry firm orders priced in penny increments are deemed bids or offers pursuant to (ii) above.

.02 Solicitation Orders. Order entry firms must expose orders they represent as agent for at least three (3) seconds before such orders may be executed electronically via the electronic execution mechanism of the Hybrid System, in whole or in part, against orders solicited from members and non-member broker-dealers to transact with such orders. This paragraph also shall apply to agency orders resting on the Hybrid System in penny increments pursuant to Rule 6.13B. In such cases, agency orders priced in penny increments are deemed “exposed” pursuant to this paragraph.

* * * * *

Rule 6.45B Priority and Allocation of Trades in Index Options and Options on ETFs on the CBOE Hybrid System

6.45B *Generally:* No change.

(a) – (d) No change.

...Interpretations and Policies:

.01 Principal Transactions: Order entry firms may not execute as principal against orders they represent as agent unless: (i) agency orders are first exposed on the Hybrid System for at least three (3) seconds, (ii) the order entry firm has been bidding or offering for at least (3) seconds prior to receiving an agency order that is executable against such bid or offer, or (iii) the order entry firm proceeds in accordance with the crossing rules contained in Rule 6.74. This paragraph also shall apply to orders resting on the Hybrid System in penny increments pursuant to Rule 6.13B. In such cases, agency orders priced in penny increments are deemed “exposed” pursuant to (i) above, and order entry firm orders priced in penny increments are deemed bids or offers pursuant to (ii) above.

.02 Solicitation Orders. Order entry firms must expose orders they represent as agent for at least three (3) seconds before such orders may be executed electronically via the electronic execution mechanism of the Hybrid System, in whole or in part, against orders solicited from members and non-member broker-dealers to transact with such orders. This paragraph also

shall apply to agency orders resting on the Hybrid System in penny increments pursuant to Rule 6.13B. In such cases, agency orders priced in penny increments are deemed “exposed” pursuant to this paragraph.

* * * * *

Rule 6.47. Priority on Split-Price Transactions Occurring in Open Outcry

(a) – (c) No change.

... Interpretations and Policies:

.01 No change.

.02 The availability of split-price priority when an order is executed in a one-cent increment pursuant to Rule 6.13B shall be determined in accordance with Rule 6.13B(b).

* * * * *

Rule 6.74. Crossing Orders

(a) – (f) No change.

... Interpretations and Policies:

.01 - .08 No change.

.09 For purposes of paragraphs (a), (b), and (d), the minimum increment for bids and offers shall be one cent for orders that are subject to the open outcry penny price improvement under Rule 6.13B. Open outcry penny price improvement under Rule 6.13B shall not be available for orders executed pursuant to paragraphs (c) and (f).

* * * * *

Item 2. Procedures of the Self-Regulatory Organization

(a) The CBOE’s Office of the Chairman approved the proposed rule change on March 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, Inc., 400 South LaSalle, Chicago, IL 60605, (312) 786-7462 or Angelo Evangelou, (312) 786-7464.

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

(a) Purpose

The purpose of this filing is to allow Exchange users the expanded ability to effect transactions in penny increments in classes and/or series trading on CBOE's Hybrid System that are not already quoting in penny increments.¹ The Exchange would designate the classes/series eligible for this penny pricing, and the penny pricing would be available electronically and in open outcry. As proposed, all limit orders electronically sent to CBOE (regardless of sender origin type) could be expressed in a one cent increment. The Exchange would round the limit price to the nearest permissible quoted increment for display purposes but would maintain the one cent increment limit price for trade allocation purposes. For example, the CBOE market is 1 – 1.20 and an order is received to buy 10 contracts at 1.08. CBOE would disseminate a 1.05 bid for 10 contracts, and any subsequent sell market order received by the Exchange would trade at 1.08 for up to 10 contracts (after that, the quote would revert back to 1 – 1.20).² An Exchange Market-Maker could also provide the Exchange with indications to trade in one cent increments that improve on the Market Maker's disseminated quotation. To the extent there is trading interest from multiple sources at the same one cent increment price, priority will be established in the exact same manner as priority at a standard quoting increment (i.e. normal allocation procedures are used). The Exchange may attach an indicator to its publicly disseminated quote indicating the existence of penny pricing for the series, but the size and price of any penny pricing will not be displayed or made available to anyone. If the indicator feature is activated, it will apply to all classes/series participating in the penny pricing program.

¹ In SR-CBOE-2006-42 the Exchange proposed to allow penny price improvement in open outcry. That filing has been withdrawn and most of its provisions have been incorporated into this filing which also contemplates electronic penny price improvement.

As far as open outcry, crowd members would be able to provide price improvement in one cent increments over the Exchange's BBO (again, any resulting trade could not cause a trade-through of another options exchange). Further, prior to executing any order in open outcry in one cent increments, members will be required to electronically "sweep" any penny pricing interest that may exist. The "sweep" would ensure that better priced orders resting in one cent increments are executed prior to the open outcry transaction and would also ensure that same priced orders receive executions consistent with existing rules governing priority of orders in the Hybrid book when trading with an order represented in open outcry (Rule 6.45A(b) and Rule 6.45B(b)). The applicability of split price priority under Rule 6.47 to transactions effected under proposed Rule 6.13B would be determined by the appropriate option procedure committee, and the mechanics of split price priority in those instances would be the same as the mechanics of split price in five and ten cent increments. In addition, open outcry penny pricing would generally be available in instances where a Floor Broker is attempting to cross an order pursuant to Rule 6.74, however it would not be available in those instances where (i) a Floor Broker is attempting to cross orders during the opening rotation in open outcry³ or (ii) a Floor Broker is utilizing the Exchange's SizeQuote Mechanism.⁴ Lastly, the restrictions contained in Interpretations and Policies .01 and .02

² Of course, the system would not execute an order at a price that would cause a trade-through of another options exchange.

³ See CBOE Rule 6.74(c), which provides procedures for a floor broker to cross orders during the opening rotation for a class of options.

⁴ See CBOE Rule 6.74(f), which describes the SizeQuote Mechanism.

under Rules 6.45A and 6.45B would continue to apply to trading in penny increments including the 3-second exposure requirements contained in those Interpretations and Policies.

(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”),⁵ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁶ in particular, in that it is designed to facilitate transactions in securities, to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and, in general, to protect investors and the public interest. In particular, the Exchange believes that the proposal would provide an opportunity for customers to receive price improvement on their orders.

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)

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).

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-2007-39)

Dated: _____

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Regarding Penny Price Improvement

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Exchange Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 24, 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 its Rules regarding penny price improvement for options not currently quoted in one-cent increments. The text of the proposed rule change is available on the Exchange’s Web site (<http://www.cboe.org/Legal>), at the CBOE’s Office of the Secretary, and at the Commission’s public reference room.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 purpose of this filing is to allow Exchange users the expanded ability to effect transactions in penny increments in classes and/or series trading on CBOE's Hybrid System that are not already quoting in penny increments.³ The Exchange would designate the classes/series eligible for this penny pricing, and the penny pricing would be available electronically and in open outcry. As proposed, all limit orders electronically sent to CBOE (regardless of sender origin type) could be expressed in a one cent increment. The Exchange would round the limit price to the nearest permissible quoted increment for display purposes but would maintain the one cent increment limit price for trade allocation purposes. For example, the CBOE market is 1 – 1.20 and an order is received to buy 10 contracts at 1.08. CBOE would disseminate a 1.05 bid for 10 contracts, and any subsequent sell market order received by the Exchange would trade at 1.08 for up to 10 contracts (after that, the quote would revert back to 1 – 1.20).⁴ An Exchange Market-Maker could also provide the Exchange with indications to trade in one cent increments that improve on the Market Maker's disseminated quotation. To the extent there is trading interest from multiple sources at the same one cent increment price, priority will be established in the exact same manner as

³ In SR-CBOE-2006-42 the Exchange proposed to allow penny price improvement in open outcry. That filing has been withdrawn and most of its provisions have been incorporated into this filing which also contemplates electronic penny price improvement.

⁴ Of course, the system would not execute an order at a price that would cause a trade-through of another options exchange.

priority at a standard quoting increment (i.e. normal allocation procedures are used). The Exchange may attach an indicator to its publicly disseminated quote indicating the existence of penny pricing for the series, but the size and price of any penny pricing will not be displayed or made available to anyone. If the indicator feature is activated, it will apply to all classes/series participating in the penny pricing program.

As far as open outcry, crowd members would be able to provide price improvement in one cent increments over the Exchange's BBO (again, any resulting trade could not cause a trade-through of another options exchange). Further, prior to executing any order in open outcry in one cent increments, members will be required to electronically "sweep" any penny pricing interest that may exist. The "sweep" would ensure that better priced orders resting in one cent increments are executed prior to the open outcry transaction and would also ensure that same priced orders receive executions consistent with existing rules governing priority of orders in the Hybrid book when trading with an order represented in open outcry (Rule 6.45A(b) and Rule 6.45B(b)). The applicability of split price priority under Rule 6.47 to transactions effected under proposed Rule 6.13B would be determined by the appropriate option procedure committee, and the mechanics of split price priority in those instances would be the same as the mechanics of split price in five and ten cent increments. In addition, open outcry penny pricing would generally be available in instances where a Floor Broker is attempting to cross an order pursuant to Rule 6.74, however it would not be available in those instances where (i) a Floor Broker is attempting to cross orders during the opening rotation in open outcry⁵ or (ii) a Floor Broker is utilizing the Exchange's SizeQuote

⁵ See CBOE Rule 6.74(c), which provides procedures for a floor broker to cross orders during the opening rotation for a class of options.

Mechanism.⁶ Lastly, the restrictions contained in Interpretations and Policies .01 and .02 under Rules 6.45A and 6.45B would continue to apply to trading in penny increments including the 3-second exposure requirements contained in those Interpretations and Policies.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),⁷ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁸ in particular, in that it is designed to facilitate transactions in securities, to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and, in general, to protect investors and the public interest. In particular, the Exchange believes that the proposal would provide an opportunity for customers to receive price improvement on their orders.

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

⁶ See CBOE Rule 6.74(f), which describes the SizeQuote Mechanism.

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

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-2007-39 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-2007-39. 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-2007-39 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).