OMB APPROVAL	
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Estimated average burden hours per response	38

Page 1 of 23

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

File No. SR - 2007 - 62
Amendment No.

Proposed Rule Change by Chicago Board Options Exchange

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial	Amendment	Withdrawal	Section 19(b)(2)	Section 19(b)(3)(A)	Section 19(b)(3)(B)
☑	☐	☐	☐	☑	☐

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

Rule

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

Exhibit 1 Sent As Paper Document ☐ Exhibit 2 Sent As Paper Document ☐

Description

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

CBOE is proposing amendments to its rules related to Credit Default Options.

Contact Information

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

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

Signature

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

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

Date 06/14/2007

By Jennifer M. Lamie
(Name)

Assistant General Counsel and Assistant Secretary
(Title)

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

Jennifer Lamie, lamie@cboe.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information

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

The Chicago Board Options Exchange, Incorporated (the "Exchange" or "CBOE") proposes to amend its rules pertaining to Credit Default Options ("CDOs") in order to: (i) eliminate the requirement that a Market-Maker obtain a separate letter of guarantee to trade CDOs and the requirement that a Floor Broker obtain a separate letter of authorization to trade CDOs; (ii) provide that, for purposes of CDOs, references in the Exchange Rules to the "appropriate committee" shall be read to be the "Exchange;" (iii) make certain non-substantive clarifications with respect to the CDO provisions pertaining to Redemption Events; (iv) provide for the exclusion of certain debt securities from the definitions of "Reference Obligation" and "Relevant Obligations" and establish certain minimum threshold amounts for purposes of identifying the occurrence of a "Credit Event;" and (v) modify the provisions pertaining to rights and obligations of CDO holders and writers and certain disclaimers. The text of the proposed rule change is provided below (additions are underlined; deletions are [bracketed]).

Chicago Board Options Exchange, Incorporated

Rules

* * * * *

Rule 29.1 - Definitions

RULE 29.1. The following terms as used in this Chapter, shall unless the context otherwise indicates, have the meanings herein specified.

(a) – (b) No change.

(c) A "Credit Event" occurs when a Reference Entity:

(i) has a Failure-to-Pay Default on a specific debt security obligation (the "Reference Obligation") or any other debt security obligation(s) other than non-recourse indebtedness (the set of these obligations and the Reference Obligation are referred to as the "Relevant Obligations"). The term "Failure-to-Pay Default" will be defined in accordance with the terms of the Relevant Obligation(s), provided that the minimum failure-to-pay amount, individually or in the aggregate, shall be the greater of $750,000 or the amount specified in

accordance with the terms of the Relevant Obligation(s); and/or

(ii) has any other Event of Default on the Relevant Obligation(s). Each such "Event(s) of Default" will be specified by the Exchange in accordance with Rule 29.2 and, if so specified, will be defined in accordance with the terms of the Relevant Obligation(s); provided that the default relates to a principal amount of the Relevant Obligation(s), individually or in the aggregate, that is the greater of $7.5 million or the amount specified in accordance with the terms of the Relevant Obligation(s); and/or

(iii) has a change in the terms of the Relevant Obligation(s) (a "Restructuring"). The terms of such a Restructuring will be specified by the Exchange in accordance with Rule 29.2 and, if so specified, will be defined in accordance with the terms of the Relevant Obligation(s); provided that the restructuring relates to a principal amount of the Relevant Obligation(s), individually or in the aggregate, that is the greater of $7.5 million or the amount specified in the terms of the Relevant Obligation(s).

* * * * *

Rule 29.4 - Adjustments

RULE 29.4. (a) Credit Default Option contracts are subject to adjustment in accordance with the following:

(1) No change.

(2) Adjustment for Redemption: Once the Exchange has confirmed a Redemption Event, the Credit Default Option contract will cease trading on the confirmation date. If no Credit Event has been confirmed to have occurred prior to the effective date of the Redemption Event, the contract payout will be $0. If a Credit Event has been confirmed to have occurred prior to the effective date of the Redemption Event, the cash settlement amount shall be as provided in Rule 29.1(a). The Credit Event confirmation period will begin when the Credit Default Option contract is listed and will extend to 3:00 p.m. (CT) on the 4th Exchange business day after the effective date of the Redemption Event.

(i) A "Redemption Event" will be defined in accordance with the terms of the Relevant Obligation(s) and will include the redemption or maturity of the Reference Obligation and of all other Relevant Obligations.

(ii) If the Reference Obligation is redeemed or matures but other Relevant Obligation(s) remain, a new Reference Obligation will be specified from among the remaining Relevant Obligation(s) and the substitution will not be deemed a Redemption Event.

(b) No change.

* * * * *

Rule 29.9 – Determination of Credit Event, Automatic Exercise and Settlement

RULE 29.9. (a) – (e) No change.

Rule 29.9 replaces, for purposes of Chapter XXIX, Rule 11.1. Rule 11.2 is not applicable.

Rule 29.10 – [Rights and Obligations of Holders and Sellers]Disclaimers

RULE 29.10. [(a) Subject to the provisions of Rules 4.14, 4.16 and 11.3, the rights and obligations of holders and sellers of Credit Default Options dealt in on the Exchange shall be set forth in the By-Laws and Rules of the Clearing Corporation. Rules 11.1 and 11.2 shall not be applicable to Credit Default Options.]

[(b) The Exchange shall have no liability for damages, claims, losses or expenses caused by any errors, omissions or delays in confirming or disseminating notice of any Credit Event resulting from a negligent act or omission by the Exchange or any act, condition or cause beyond the reasonable control of the Exchange, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; any error, omission or delay in the reports of transactions in one or more underlying securities.]

The term "reporting authority" as used in this rule refers to the Exchange or any other entity identified by the Exchange as the "reporting authority" in respect of a class of Credit Default Options for purposes of the By-Laws and Rules of the Clearing Corporation and any affiliate of the Exchange or any such other entity. No reporting authority makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of any Credit Default Option. Any reporting authority hereby disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any Credit Default Option. Any reporting authority shall have no liability for any damages, claims, losses (including any indirect or consequential losses), expenses or delays, whether direct or indirect, foreseen or unforeseen, suffered by any person relating to any Credit Default Option, including without limitation as a result of any error, omission or delay in confirming, or disseminating notice of, any Credit Event, any determination to adjust or not to adjust the terms of outstanding Credit Default Options, or any other determination with respect to Credit Default Options for which it has responsibility under the By-Laws and Rules of the Clearing Corporation.

* * * * *

[Rule 29.18 – Letter of Guarantee or Authorization

RULE 29.18. (a) No Market-Maker shall effect any transaction in Credit Default Options unless one or more Letter(s) of Guarantee has been issued by a Clearing Member and filed with the Exchange pursuant to Rule 8.5(a) accepting financial responsibility for all Credit Default Options transactions made by the Market-Maker and such letter has not been revoked under Rule 8.5(c). Upon approval by the Clearing Corporation, if applicable, and filing with the Exchange,

an existing Letter of Guarantee may be amended specifically to include Credit Default Option transactions.

(b) No Floor Broker shall act as such in respect of Credit Default Option contracts unless a Letter of Authorization has been issued by a Clearing Member and filed with the Exchange under Rule 6.72(a) specifically accepting responsibility for the clearance of Credit Default Option transactions of the Floor Broker and such letter has not been revoked under Rule 6.72(c). Upon approval by the Clearing Corporation, if applicable, and filing with the

Exchange, an existing Letter of Authorization may be amended to include Credit Default Option transactions.]

Rule 29.18 – Exchange Authority

RULE 29.18. For purposes of options that are subject to this Chapter XXIX, references in the Exchange Rules to the appropriate committee shall be read to be the Exchange.

* * * * *

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 June 14, 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 recently received approval to list and trade Credit Default Options or CDOs, which are binary call options based on Credit Events[1] in one or more debt securities of an issuer or guarantor.[2] Before the initiation of trading in CDOs, the Exchange wishes to make certain changes to its new Chapter XXIX, which contains the rules applicable to CDOs.

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1 A "Credit Event" occurs when a Reference Entity has a Failure-to-Pay Default on, any other Event of Default on, and/or a Restructuring of the Relevant Obligation(s). Failure-to-Pay Defaults, Events of Default and Restructuring are defined in accordance with the terms of the Relevant Obligation(s). See Rule 29.1(c) and note 4, infra.

2 See Securities Exchange Act Release No. 55871 (June 6, 2007), 72 FR 32372 (June 12, 2007)(SR-CBOE-2006-84).

First, the Exchange is eliminating Rule 29.18, Letter of Authorization or Guarantee, which currently requires that: (i) no Market-Maker shall effect any transaction in CDOs unless one or more Letter(s) of Guarantee has been issued by an Exchange Clearing Member and filed with the Exchange accepting financial responsibility for all CDO transactions made by the Market-Maker; and (ii) no Floor Broker shall act as such in respect of CDO contracts unless a Letter of Authorization has been issued by an Exchange Clearing Member and filed with the Exchange. The Exchange is eliminating these requirements because they create a duplicative and unnecessary administrative burden since Market-Makers and Floor Brokers must already submit Letters of Guarantee or Authorization pursuant to Rules 8.5, Letters of Guarantee, and 6.72, Letters of Authorization, as applicable, and CDOs would be subject to such existing Letters.

Second, the Exchange is proposing to adopt new Rule 29.18, Exchange Authority, which will provide that, for purposes of options that are subject to Chapter XXIX, references in the Exchange Rules to the appropriate committee shall be read to be to the Exchange.[3] The Exchange is proposing to make this change because it may determine to assign these authorities with respect to options that are subject to Chapter XXIX, including CDOs, to committees and/or Exchange staff. In making this change, the Exchange will have the flexibility to delegate the authorities under the rules with respect to options that are subject to Chapter XXIX, including CDOs, to an appropriate committee or appropriate Exchange staff

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[3] Thus, for example, references to determinations regarding the applicable opening parameter settings established by the "appropriate Procedure Committee" in Exchange Rule 6.2B, Hybrid Opening System ("HOSS"), shall be read to be by the "Exchange."

and will not have to make a rule change merely, for instance, to accommodate the reassignment of any such authority.

Third, the Exchange is making some non-substantive clarifications with respect to the provisions of Rule 29.4, Adjustments, that pertain to Redemption Events.[4] Specifically, the Exchange is substituting the phrase "Redemption Event" for "Redemption" in three locations in subparagraph (a)(2) for grammatical consistency in the rule text. The Exchange is also inserting the phrases "or maturity" in subparagraph (a)(2)(i) and "or matures" in subparagraph (a)(2)(ii) in order to clarify that the definition of a "Redemption Event" includes the redemption or maturity of the Reference Obligation and of all other Relevant Obligations and, if a Reference Obligation is redeemed or matures but other Relevant Obligation(s) remain, a new Reference Obligation will be specified from among the remaining Relevant Obligation(s). The Exchange is also inserting language into this provision that clarifies that the substitution of a new Reference Obligation in these two particular scenarios (i.e., if the Reference Obligation is redeemed or matures but other Relevant Obligation(s) remain) will not be deemed a Redemption Event. These changes to the rule text simply make clear the Exchange's intent with respect to the impact of maturity.

Fourth, the Exchange is proposing to clarify that non-recourse debt is excluded from the definitions of Reference Obligation and Relevant Obligations as set forth in Rule 29.1(c). The Exchange is proposing to exclude non-recourse indebtedness because this type of debt

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[4] A "Redemption Event" is defined in accordance with the terms of the Relevant Obligation(s) and includes the redemption of the Reference Obligation and of all other Relevant Obligations. A "Reference Obligation" is a specific debt security of an issuer or guarantor that underlies a CDO. The set of the Reference Obligation and any other debt security obligation(s) of the issuer or guarantor that underlie a CDO are referred to as the "Relevant Obligations". See Rules 29.1(c) and 29.4(a)(2)(i); see

security is generally secured by collateral, which is the only asset the holder of debt security may look to for satisfaction to cover the defaulted amount. The Exchange does not intend to list and trade CDOs (and other types of credit products) that are based on non-recourse debt and therefore believes its exclusion from the definitions is appropriate. The Exchange also believes that exclusion of non-recourse debt is consistent with the purpose of CDOs to afford investors protections linked to the Reference Entity's creditworthiness.

In addition, the Exchange is proposing to include a minimum threshold amount for purposes of identifying the occurrence of Failure-to-Pay Defaults, Events of Defaults and Restructurings. For a Failure-to-Pay Default, the minimum failure-to-pay amount, whether individually or in the aggregate, shall be the greater of $750,000 or the amount specified in the terms of the Relevant Obligation(s). This provision would override any contradictory provision in the Relevant Obligation(s) terms regarding the minimum amount of non-payment that triggers a Failure-to-Pay Default. For an Event of Default or Restructuring, the default or restructuring (as applicable) must relate to a principal amount of the Relevant Obligation(s), whether individually or in the aggregate, that is the greater of $7.5 million or the amount specified in the terms of the Relevant Obligation(s). These provisions would override any contradictory provisions in the Relevant Obligation(s) terms regarding the minimum principal amount necessary to trigger an Event of Default or Restructuring. The Exchange believes that establishing these minimum threshold amounts is appropriate and will assist in the administration of the Credit Event confirmation process. These minimum threshold amounts are designed to ensure that a de minimis failure-to-pay, default or restructuring will not trigger a Credit Event and, thus, the Exchange believes they are in

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also proposed amendments to Rule 29.1(c) described below.

keeping with the purpose of CDOs to afford investors protections linked to the Reference Entity's creditworthiness.

Finally, the Exchange is proposing to modify Rule 29.10, Rights and Obligations of Holders and Sellers, in order to change the title of the rule to Disclaimers, remove certain redundancies and replace the disclaimer provision contained within text with a provision that is more consistent with other existing Exchange Rules. Specifically with respect to redundancies, the Exchange is proposing to delete paragraph (a) of the Rule, which currently provides that, subject to certain other Exchange Rules, the rights and obligations of holders and sellers of CDOs dealt in on the Exchange shall be set forth in the By-Laws and Rules of The Options Clearing Corporation ("OCC"). This language is duplicative considering Rule 5.2, Rights and Obligations of Holders and Sellers, contains substantively similar language. Paragraph (a) also currently provides that Rules 11.1, Exercise of Option Contracts, and 11.2, Allocation of Exercise Notices, are not applicable to CDOs. The Exchange is proposing to delete this language because it is duplicative considering Rule 29.9, Determination of Credit Event, Automatic Exercise and Settlement.[5] With respect to disclaimers, the Exchange is proposing to delete (b) of the Rule, which currently contains disclaimer language limiting the Exchange's liability.[6] This provision would be replaced with disclaimer language[7] that the

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5 The reference at the end of Rule 29.9 currently provides that, for purpose of Chapter XXIX, Rule 29.9 replaces Rule 11.1. The Exchange is also proposing to amend this reference to make it clear that Rule 11.2 is not applicable to CDOs.

6 Specifically, existing Rule 29.10(b) currently provides that, "[t]he Exchange shall have no liability for damages, claims, losses or expenses caused by any errors, omissions or delays in confirming or disseminating notice of any Credit Event resulting from a negligent act or omission by the Exchange or any act, condition or cause beyond the reasonable control of the Exchange, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment

Exchange believes is more consistent with its other disclaimer rules relating to reporting authorities, including Rule 24.14, Disclaimers.

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act")[8] and the rules and regulations under the Act applicable to national securities exchanges and, in particular, the requirements of Section 6(b) of the Act.[9] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[10] 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

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or software malfunction; any error, omission or delay in the reports of transactions in one or more underlying securities."

7 Revised Rule 29.10 would provide that, "The term 'reporting authority' as used in this rule refers to the Exchange or any other entity identified by the Exchange as the 'reporting authority' in respect of a class of [CDOs] for purposes of the By-Laws and Rules of [OCC] and any affiliate of the Exchange or any such other entity. No reporting authority makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of any [CDO]. Any reporting authority hereby disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any [CDO]. Any reporting authority shall have no liability for any damages, claims, losses (including any indirect or consequential losses), expenses or delays, whether direct or indirect, foreseen or unforeseen, suffered by any person relating to any [CDO], including without limitation as a result of any error, omission or delay in confirming, or disseminating notice of, any Credit Event, any determination to adjust or not to adjust the terms of outstanding [CDOs], or any other determination with respect to [CDOs] for which it has responsibility under the By-Laws and Rules of [OCC]."

8 15 U.S.C. 78s(b)(1).

9 15 U.S.C. 78f(b).

10 15 U.S.C. 78f(b)(5).

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

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[11] for Commission consideration of the proposed rule change.

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

(a) The proposed rule change has taken effect upon filing pursuant to Section 19(b)(3)(A) of the Act.[12]

(b) The changes discussed above constitute a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of existing CBOE rules, which renders the proposal effective upon filing with the Commission pursuant to Section 19(b)(3)(A)(iii) of the Act[13] and Rule 19b-4(f)(1) thereunder.[14]

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11 15 U.S.C. 78s(b)(2).

12 15 U.S.C. 78s(b)(3)(A).

13 15 U.S.C. 78s(b)(3)(A)(iii).

(c) Not applicable.

(d) Not applicable.

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

This proposed rule change is not based on the rules of another self-regulatory organization or of the Commission.

Item 9. Exhibits

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

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[14] 17 CFR 240.19b-4(f)(1).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-CBOE-2007-62)

Dated:_____

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend its Rules Related to Credit Default Options

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 has designated the proposed rule change as concerned solely with the administration of the Exchange under Section 19(b)(3)(A)(iii) of the Act,[3] and Rule 19b-4(f)(1) thereunder,[4] which renders the proposal effective upon filing of this proposal with the Commission. 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 pertaining to Credit Default Options ("CDOs") in order to: (i) eliminate the requirement that a Market-Maker obtain a separate

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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)(1).

letter of guarantee to trade CDOs and the requirement that a Floor Broker obtain a separate letter of authorization to trade CDOs; (ii) provide that, for purposes of CDOs, references in the Exchange Rules to the "appropriate committee" shall be read to be the "Exchange;" (iii) make certain non-substantive clarifications with respect to the CDO provisions pertaining to Redemption Events; (iv) provide for the exclusion of certain debt securities from the definitions of "Reference Obligation" and "Relevant Obligations" and establish certain minimum threshold amounts for purposes of identifying the occurrence of a "Credit Event;" and (v) modify the provisions pertaining to rights and obligations of CDO holders and writers and certain disclaimers. The text of the proposed rule change is available on the Exchange's website (http://www.cboe.org/legal), at the Exchange's Office of the Secretary and at the Commission.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

The Exchange recently received approval to list and trade Credit Default Options or CDOs, which are binary call options based on Credit Events[5] in one or more debt securities of an issuer or guarantor.[6] Before the initiation of trading in CDOs, the Exchange wishes to make certain changes to its new Chapter XXIX, which contains the rules applicable to CDOs.

First, the Exchange is eliminating Rule 29.18, Letter of Authorization or Guarantee, which currently requires that: (i) no Market-Maker shall effect any transaction in CDOs unless one or more Letter(s) of Guarantee has been issued by an Exchange Clearing Member and filed with the Exchange accepting financial responsibility for all CDO transactions made by the Market-Maker; and (ii) no Floor Broker shall act as such in respect of CDO contracts unless a Letter of Authorization has been issued by an Exchange Clearing Member and filed with the Exchange. The Exchange is eliminating these requirements because they create a duplicative and unnecessary administrative burden since Market-Makers and Floor Brokers must already submit Letters of Guarantee or Authorization pursuant to Rules 8.5, Letters of Guarantee, and 6.72, Letters of Authorization, as applicable, and CDOs would be subject to such existing Letters.

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5 A "Credit Event" occurs when a Reference Entity has a Failure-to-Pay Default on, any other Event of Default on, and/or a Restructuring of the Relevant Obligation(s). Failure-to-Pay Defaults, Events of Default and Restructuring are defined in accordance with the terms of the Relevant Obligation(s). See Rule 29.1(c) and note 8, infra.

6 See Securities Exchange Act Release No. 55871 (June 6, 2007), 72 FR 32372 (June 12, 2007)(SR-CBOE-2006-84).

Second, the Exchange is proposing to adopt new Rule 29.18, Exchange Authority, which will provide that, for purposes of options that are subject to Chapter XXIX, references in the Exchange Rules to the appropriate committee shall be read to be to the Exchange.[7] The Exchange is proposing to make this change because it may determine to assign these authorities with respect to options that are subject to Chapter XXIX, including CDOs, to committees and/or Exchange staff. In making this change, the Exchange will have the flexibility to delegate the authorities under the rules with respect to options that are subject to Chapter XXIX, including CDOs, to an appropriate committee or appropriate Exchange staff and will not have to make a rule change merely, for instance, to accommodate the reassignment of any such authority.

Third, the Exchange is making some non-substantive clarifications with respect to the provisions of Rule 29.4, Adjustments, that pertain to Redemption Events.[8] Specifically, the Exchange is substituting the phrase "Redemption Event" for "Redemption" in three locations in subparagraph (a)(2) for grammatical consistency in the rule text. The Exchange is also inserting the phrases "or maturity" in subparagraph (a)(2)(i) and "or matures" in subparagraph (a)(2)(ii) in order to clarify that the definition of a "Redemption Event"

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7 Thus, for example, references to determinations regarding the applicable opening parameter settings established by the "appropriate Procedure Committee" in Exchange Rule 6.2B, Hybrid Opening System ("HOSS"), shall be read to be by the "Exchange."

8 A "Redemption Event" is defined in accordance with the terms of the Relevant Obligation(s) and includes the redemption of the Reference Obligation and of all other Relevant Obligations. A "Reference Obligation" is a specific debt security of an issuer or guarantor that underlies a CDO. The set of the Reference Obligation and any other debt security obligation(s) of the issuer or guarantor that underlie a CDO are referred to as the "Relevant Obligations". See Rules 29.1(c) and 29.4(a)(2)(i); see also proposed amendments to Rule 29.1(c) described below.

includes the redemption or maturity of the Reference Obligation and of all other Relevant Obligations and, if a Reference Obligation is redeemed or matures but other Relevant Obligation(s) remain, a new Reference Obligation will be specified from among the remaining Relevant Obligation(s). The Exchange is also inserting language into this provision that clarifies that the substitution of a new Reference Obligation in these two particular scenarios (i.e., if the Reference Obligation is redeemed or matures but other Relevant Obligation(s) remain) will not be deemed a Redemption Event. These changes to the rule text simply make clear the Exchange's intent with respect to the impact of maturity.

Fourth, the Exchange is proposing to clarify that non-recourse debt is excluded from the definitions of Reference Obligation and Relevant Obligations as set forth in Rule 29.1(c). The Exchange is proposing to exclude non-recourse indebtedness because this type of debt security is generally secured by collateral, which is the only asset the holder of debt security may look to for satisfaction to cover the defaulted amount. The Exchange does not intend to list and trade CDOs (and other types of credit products) that are based on non-recourse debt and therefore believes its exclusion from the definitions is appropriate. The Exchange also believes that exclusion of non-recourse debt is consistent with the purpose of CDOs to afford investors protections linked to the Reference Entity's creditworthiness.

In addition, the Exchange is proposing to include a minimum threshold amount for purposes of identifying the occurrence of Failure-to-Pay Defaults, Events of Defaults and Restructurings. For a Failure-to-Pay Default, the minimum failure-to-pay amount, whether individually or in the aggregate, shall be the greater of $750,000 or the amount specified in

the terms of the Relevant Obligation(s). This provision would override any contradictory provision in the Relevant Obligation(s) terms regarding the minimum amount of non-payment that triggers a Failure-to-Pay Default. For an Event of Default or Restructuring, the default or restructuring (as applicable) must relate to a principal amount of the Relevant Obligation(s), whether individually or in the aggregate, that is the greater of $7.5 million or the amount specified in the terms of the Relevant Obligation(s). These provisions would override any contradictory provisions in the Relevant Obligation(s) terms regarding the minimum principal amount necessary to trigger an Event of Default or Restructuring. The Exchange believes that establishing these minimum threshold amounts is appropriate and will assist in the administration of the Credit Event confirmation process. These minimum threshold amounts are designed to ensure that a de minimis failure-to-pay, default or restructuring will not trigger a Credit Event and, thus, the Exchange believes they are in keeping with the purpose of CDOs to afford investors protections linked to the Reference Entity's creditworthiness.

Finally, the Exchange is proposing to modify Rule 29.10, Rights and Obligations of Holders and Sellers, in order to change the title of the rule to Disclaimers, remove certain redundancies and replace the disclaimer provision contained within text with a provision that is more consistent with other existing Exchange Rules. Specifically with respect to redundancies, the Exchange is proposing to delete paragraph (a) of the Rule, which currently provides that, subject to certain other Exchange Rules, the rights and obligations of holders and sellers of CDOs dealt in on the Exchange shall be set forth in the By-Laws and Rules of

The Options Clearing Corporation ("OCC"). This language is duplicative considering Rule 5.2, Rights and Obligations of Holders and Sellers, contains substantively similar language. Paragraph (a) also currently provides that Rules 11.1, Exercise of Option Contracts, and 11.2, Allocation of Exercise Notices, are not applicable to CDOs. The Exchange is proposing to delete this language because it is duplicative considering Rule 29.9, Determination of Credit Event, Automatic Exercise and Settlement.[9] With respect to disclaimers, the Exchange is proposing to delete (b) of the Rule, which currently contains disclaimer language limiting the Exchange's liability.[10] This provision would be replaced with disclaimer language[11] that the

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9 The reference at the end of Rule 29.9 currently provides that, for purpose of Chapter XXIX, Rule 29.9 replaces Rule 11.1. The Exchange is also proposing to amend this reference to make it clear that Rule 11.2 is not applicable to CDOs.

10 Specifically, existing Rule 29.10(b) currently provides that, "[t]he Exchange shall have no liability for damages, claims, losses or expenses caused by any errors, omissions or delays in confirming or disseminating notice of any Credit Event resulting from a negligent act or omission by the Exchange or any act, condition or cause beyond the reasonable control of the Exchange, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; any error, omission or delay in the reports of transactions in one or more underlying securities."

11 Revised Rule 29.10 would provide that, "The term 'reporting authority' as used in this rule refers to the Exchange or any other entity identified by the Exchange as the 'reporting authority' in respect of a class of [CDOs] for purposes of the By-Laws and Rules of [OCC] and any affiliate of the Exchange or any such other entity. No reporting authority makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of any [CDO]. Any reporting authority hereby disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any [CDO]. Any reporting authority shall have no liability for any damages, claims, losses (including any indirect or consequential losses), expenses or delays, whether direct or indirect, foreseen or unforeseen, suffered by any person relating to any [CDO], including without limitation as a result of any error, omission or delay in confirming, or disseminating notice of, any Credit Event, any determination to adjust or not to adjust the terms of outstanding [CDOs], or any other determination with respect to [CDOs] for which it has responsibility under the By-Laws and Rules of [OCC]."

Exchange believes is more consistent with its other disclaimer rules relating to reporting authorities, including Rule 24.14, Disclaimers.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act[12] and the rules and regulations under the Act applicable to national securities exchanges and, in particular, the requirements of Section 6(b) of the Act.[13] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[14] 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.

B. Self-Regulatory Organization's Statement on Burden on Competition

CBOE does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposal.

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

The Exchange has designated this proposal as constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule

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12 15 U.S.C. 78s(b)(1).

13 15 U.S.C. 78f(b).

14 15 U.S.C. 78f(b)(5).

under Section 19(b)(3)(A)(iii) of the Act,[15] and Rule 19b-4(f)(1) thereunder,[16] which renders the proposal effective upon filing with the Commission.

At any time within sixty days of the filing of this proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2007-62 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-2007-62. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will

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15 15 U.S.C. 78s(b)(3)(A)(iii).

16 17 CFR 240.19b-4(f)(1).

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-2007-62 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.[17]

Nancy M. Morris
Secretary

Dated: _____

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17 17 CFR 200.30-3(a)(12).