

OMB APPROVAL

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

File No. SR - 2007 - 66

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

Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document

**Description**

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

Proposal to modify CBOE's open outcry allocation rules.

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
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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

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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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 open outcry allocation rules for classes trading on the Hybrid Trading System ("Hybrid"). 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 6.45A. - Priority and Allocation of Equity Option Trades on the CBOE Hybrid System

RULE 6.45A. Generally: The rules of priority and order allocation procedures set forth in this rule shall apply only to equity option classes designated by the Exchange to be traded on the CBOE Hybrid System and has no applicability to index option and options on ETF classes. The term "market participant" as used throughout this rule refers to a Market-Maker, an in-crowd DPM, an e-DPM, a Remote Market-Maker, and a floor broker or a PAR Official representing orders in the trading crowd. The term "in-crowd market participant" only includes an in-crowd Market-Maker, in-crowd DPM, and floor broker or PAR Official representing orders in the trading crowd.

(a) No change.

(b) Allocation of Orders Represented in Open Outcry: The allocation of orders that are represented in open outcry by floor brokers or PAR Officials shall be as described below in subparagraph[s] (b)(i) [and (b)(ii)]. With respect to subparagraph (b)(i)(B), the floor broker or PAR Official representing the order shall determine the sequence in which bids (offers) are made.

(i) [Priority of Orders in the Electronic Book]The highest bid (lowest offer) shall have priority, but where two or more bids (offers) for the same option contract represent the highest (lowest) price:

(A) [Public Customer Orders:] Public customer orders in the electronic book shall have first priority. Multiple public customer orders in the electronic book at the same price are ranked based on time priority. If a public customer order(s) in the electronic book matches, or is matched by, an oral bid or offer provided by a member of the trading crowd, the public customer order(s) shall have priority and the balance of the order, if any,

will be allocated in open outcry in accordance with subparagraph [(ii)](B) below.

[(B) Broker-Dealer Orders: If pursuant to Rule 7.4(a) the appropriate Procedure Committee determines to allow broker-dealer orders to be placed in the electronic book, then for purposes of this rule, the cumulative number of broker-dealer orders in the electronic book at the best price shall be deemed one "book market participant" regardless of the number of broker-dealer orders in the book. The allocation due the broker-dealer orders in the electronic book by virtue of their being deemed a "book market participant" shall be in accordance with paragraph (ii) below and shall be distributed among each broker-dealer order comprising the "book market participant" in accordance with the Allocation Algorithm formula in effect pursuant to Rule 6.45A(a).]

[(ii) Allocation]

[(A) The highest bid (lowest offer) shall have priority.]

(B) [(1)] [If two or more b] Bids (offers) of in-crowd market participants shall have second priority. [represent the best price, one of which represents a book market participant, p]Priority shall be afforded to the in-crowd market participants in [the sequence in which their bids (offers) were made]accordance with the allocation principles contained in Rule 6.45(a) or (b). The balance of the order, if any, will be allocated in accordance with subparagraph (C) below.

(C) Bids (offers) of broker-dealer orders in the electronic book and electronic quotes of Market-Makers shall have third priority. Priority shall be afforded to these bids (offers) in accordance with the Allocation Algorithm formula in effect pursuant to Rule 6.45A(a).

(D) Notwithstanding the priority provisions otherwise applicable under subparagraph (B) above, members relying on Section 11(a)(1)(G) of the Exchange Act and Rule 11a1-1(T) thereunder (commonly known as the "G exemption rule") as an exemption must yield priority to any bid (offer) at the same price of public customer orders and broker-dealer orders resting in the electronic book, as well as any other bids and offers that have priority over such broker-dealer orders under this Rule.

[Provided, however, that the first in-crowd market participant to respond shall be entitled to 70% of the order. The second in-crowd market participant to respond (if ascertainable) shall be entitled to 70% of the remainder of the order (i.e., 70% of 30%). The balance of the order shall be apportioned equally among the remaining in-crowd market participants bidding (offering) at the same price and the book market participant (as defined in Rule 6.45A(b)(i)(B) above). If it is not possible to determine the order in which in-crowd market participants responded, the balance of the order shall be apportioned equally among the remaining market participants bidding (offering) at the same price and, if applicable, the book market participant.]

[In the event an in-crowd a market participant declines to accept any portion of the available contracts, any remaining contracts shall be apportioned equally among the other in-crowd market participants who bid (offered) at the best price (including the book market participant, if applicable) at the time the market was established until all contracts have been apportioned.]

[(2) If two or more bids or offers represent the best price, each of which is NOT a book market participant, priority shall be afforded in accordance with the allocation principles contained in CBOE Rule 6.45(a) or (b) and NOT Rule 6.45A(b).]

[(i)ii) No change.

[(iv)iii) No change.

* * * * *

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

RULE 6.45B. Generally: The rules of priority and order allocation procedures set forth in this rule shall apply only to index options and options on ETFs that have been designated for trading on the CBOE Hybrid System. The term "market participant" as used throughout this rule refers to a Market-Maker, a Remote Market-Maker, an in-crowd DPM or LMM, an e-DPM with an appointment in the subject class, and a floor broker or a PAR Official representing orders in the trading crowd. The term "in-crowd market participant" only includes an in-crowd Market-Maker, in-crowd DPM or LMM, and floor broker or PAR Official representing orders in the trading crowd.

(a) Allocation of Incoming Electronic Orders: No change.

(b) Allocation of Orders Represented in Open Outcry: The allocation of orders that are represented in open outcry by floor brokers or PAR Officials shall be as described below in subparagraph[s] (b)(i) [and (b)(ii)]. With respect to subparagraph (b)(i)(B), the floor broker or PAR Official representing the order shall determine the sequence in which bids (offers) are made.

(i) [Priority of Orders in the Electronic Book]The highest bid (lowest offer) shall have priority, but where two or more bids (offers) for the same option contract represent the highest (lowest) price:

(A) [Public Customer Orders:] Public customer orders in the electronic book shall have first priority. Multiple public customer orders in the electronic book at the same price are ranked based on time priority. If a public customer order(s) in the electronic book matches, or is matched by, an oral bid or offer provided by a member of the trading crowd, the public customer order(s) shall have priority and the balance of the order, if any,

will be allocated in open outcry in accordance with subparagraph [(ii)](B) below.

[(B) Broker-Dealer Orders: If pursuant to Rule 7.4(a) the appropriate Procedure Committee determines to allow broker-dealer orders to be placed in the electronic book, then for purposes of this rule, the cumulative number of broker-dealer orders in the electronic book at the best price shall be deemed one "book market participant" regardless of the number of broker-dealer orders in the book. The allocation due the broker-dealer orders in the electronic book by virtue of their being deemed a "book market participant" shall be in accordance with paragraph (ii) below and shall be distributed among each broker-dealer order comprising the "book market participant" in accordance with the Allocation Algorithm formula in effect pursuant to Rule 6.45B(a).]

[(ii) Allocation]

[(A) The highest bid (lowest offer) shall have priority.]

(B) [If two or more bids or offers represent the best price, each of which is NOT a book market participant, priority shall be afforded in accordance with the allocation principles contained in CBOE Rule 6.45(a) or (b) and NOT Rule 6.45B(b).]

[If two or more b]Bids (offers) of in-crowd market participants shall have second priority. [represent the best price, one of which represents a book market participant, p]Priority shall be afforded to the in-crowd market participants in [the sequence in which their bids (offers) were made]accordance with the allocation principles contained in Rule 6.45(a) or (b). The balance of the order, if any, will be allocated in accordance with subparagraph (C) below.

(C) Bids (offers) of broker-dealer orders in the electronic book and electronic quotes of Market-Makers shall have third priority. Priority shall be afforded to these bids (offers) in accordance with the Allocation Algorithm formula in effect pursuant to Rule 6.45B(a).

(D) Notwithstanding the priority provisions otherwise applicable under subparagraph (B) above, members relying on Section 11(a)(1)(G) of the Exchange Act and Rule 11a1-1(T) thereunder (the so called "G exemption rule") as an exemption must yield priority to any bid (offer) at the same price of public customer orders and broker-dealer orders resting in the electronic book, as well as any other bids and offers that have priority over such broker-dealer orders under this Rule.

[Provided, however, that the first market participant to respond shall be entitled to 70% of the order. The second market participant to respond (if ascertainable) shall be entitled to 70% of the remainder of the order (i.e., 70% of 30%). The balance of the order shall be apportioned equally among the remaining market participants bidding (offering) at the same price and the book market participant (as defined in Rule

6.45B(b)(i)(B) above). If it is not possible to determine the order in which market participants responded, the balance of the order shall be apportioned equally among the remaining market participants bidding (offering) at the same price and, if applicable, the book market participant.]

[In the event a market participant declines to accept any portion of the available contracts, any remaining contracts shall be apportioned equally among the other participants who bid (offered) at the best price (including the book market participant, if applicable) at the time the market was established until all contracts have been apportioned. The floor broker or PAR Official representing the order shall determine the sequence in which bids (offers) are made.]

([i]ii) No change.

* * * * *

Item 2. Procedures of the Self-Regulatory Organization

(a) The CBOE's Office of the Chairman pursuant to delegated authority approved the proposed rule change on June 18, 2007. No further action is required.

(b) Please refer questions and comments on the proposed rule change to Joanne Moffic-Silver, General Counsel, CBOE, 400 South LaSalle, Chicago, IL 60605, (312) 786-7462 or Jennifer Lamie, (312) 786-7576.

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

(a) Purpose

The Exchange is proposing to modify its open outcry allocation rules for Hybrid classes, which are contained in paragraph (b) of Rules 6.45A, Priority and Allocation of Equity Option Trades on the CBOE Hybrid System, and 6.45B, Priority and Allocation of Trades in Index Options and Options on ETFs on the CBOE Hybrid System, as applicable. Under the existing allocation rules, at the same execution price: (i) public customer orders in the electronic book have first priority, with multiple public customer orders prioritized based on time priority; (ii) in-crowd market participants and broker-dealer orders resting in the electronic book collectively

have second priority, with the broker-dealer orders getting a “book market participant” share;¹ and (iii) electronic quotes of Market-Makers have third priority, with multiple bids or offers prioritized based on the electronic allocation algorithm in effect for the option class.² The Exchange is proposing to revise the priority levels so that, at the same execution price: (i) public customer orders in the electronic book would continue to have first priority, with multiple public customer orders prioritized based on time priority; (ii) in-crowd market participants would have second priority, with multiple bids or offers prioritized based on the allocation algorithm

¹ Under the existing allocation rules, the cumulative number of broker-dealer orders in the electronic book at the best price are deemed to be one “book market participant” regardless of the number of broker-dealer orders in the book. Also under the existing rules, the allocation due the broker-dealer orders in the electronic book by virtue of their being deemed a “book market participant” is as follows: If two or more bids (offers) represent the best price, one of which represents a book market participant, priority is afforded to the in-crowd market participants in the sequence in which their bids (offers) were made; provided, however, that (i) the first in-crowd market participant to respond is entitled to 70% of the order; (ii) the second in-crowd market participant to respond (if ascertainable) is entitled to 70% of the remainder of the order (i.e., 70% of 30%); and (iii) the balance of the order is apportioned equally among the remaining in-crowd market participants bidding (offering) at the same price and the book market participant share. If it is not possible to determine the order in which in-crowd market participants responded, the balance of the order shall be apportioned equally among the remaining market participants bidding (offering) at the same price and, if applicable, the book market participant. If two or more bids (offers) represent the best price, each of which is NOT a book market participant, priority is afforded to the in-crowd market participants in accordance with the allocation principles contained in CBOE Rule 6.45(a) or (b), which generally provide that priority is afforded to such bids (offers) in the sequence in which they are made or, if the bids were made at the same time or in the event the sequence cannot be reasonably determined, priority is apportioned equally. See existing CBOE Rules 6.45A(b) and 6.45B(b).

² The particular algorithm is determined on a class-by-class basis and can be based on either price-time priority, pro-rata priority or the Ultimate Match Algorithm (“UMA”). The UMA allocation formula has a component based on the number of market participants quoting at the best price (“Component A”) and a component based on the size of market participant quotes. Depending on the particular algorithm and class, additional priority overlays pertaining to public customer orders, Market-Maker participation entitlements and market turner may also apply. See CBOE Rule 6.45A(a) or 6.45B(a), as applicable.

provided in Rule 6.45(a) or (b);³ and (iii) broker-dealer orders resting in the electronic book and electronic quotes of Market-Makers would collectively have third priority, with multiple bids or offers prioritized based on the electronic allocation algorithm in effect for the option class.⁴

In addition, in order to transact proprietary orders⁵ on the floor of the Exchange pursuant to Rule 6.45A(b) or 6.45B(b), members must also ensure that they qualify for an exemption from Section 11(a)(1) of the Securities and Exchange Act of 1934 (the “Act”).⁶ Members relying on Section 11(a)(1)(G) of the Act⁷ and Rule 11a1-1(T) thereunder (commonly known as the “G exemption rule”)⁸ as an exemption must comply with the

³ Allocation among the in-crowd market participants in this manner is consistent with the existing CBOE Rule 6.45A(b) and 6.45B(b) allocation procedures that apply when there is NOT a book market participant. See note 1, supra.

⁴ If the UMA algorithm is in effect, the cumulative number of broker-dealer orders in the electronic book at the best price are deemed one “market participant” for purposes of calculating Component A. See note 2, supra. In revising the priority algorithm to provide that in-crowd market participants have priority over the trading interests of both broker-dealer orders resting in the electronic and electronic quotes of Market-Makers, the Exchange notes that at least one other options exchange already has in place rules that afford in-crowd participants priority over electronic trading interests. See Rule 6.76(d) of NYSE Arca Inc. In addition, this change in the priority algorithm will make the open outcry priority rules for non-crossing transactions more consistent with the Exchange’s open outcry priority rules for crossing transactions, which currently provide for in-crowd market participants to have priority over the trading interests of both broker-dealer orders resting in the electronic book and electronic quotes of Market-Makers. See CBOE Rule 6.74, Crossing Orders.

⁵ For purposes of CBOE Rule 6.45A(b) or 6.45B(b), a “proprietary order” will mean an order for a member’s own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion.

⁶ 15 U.S.C. 78k(a)(1).

⁷ 15 U.S.C. 78k(a)(1)(G).

⁸ 17 CFR 240.11a1-1(T).

requirements of that exemption before executing a proprietary order, including the requirement to yield priority to any bid or offer at the same price for the account of a person who is not, or is not associated with, a member (a “non-member”), irrespective of the size of any such bid or offer or the time when entered. Because CBOE’s electronic book does not distinguish between member and non-member broker-dealer orders, the revised priority provisions would further provide that members relying on the G exemption rule must yield priority to any bid (offer) at the same price of public customer orders and broker-dealer orders (whether non-member or member) resting in the electronic book, as well as any other bids and offers that would otherwise have priority over such broker-dealer orders under Rule 6.45A(b) or 6.45B(b).⁹

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act¹⁰ in general and furthers the objectives of Section 6(b)(5) of the Act¹¹ in particular in that it is designed to promote just and equitable principles of trade, serve to remove impediments

⁹ Thus, for example, a Floor Broker that is relying on the G exemption rule must first yield priority to any same priced public customer orders and broker-dealer orders resting in the electronic book, as well as any in-crowd market participants that would otherwise have priority over those broker-dealer orders, before executing a proprietary order. In such a scenario, the priority Rule 6.45A(b) or Rule 6.45B(b) priority sequence described above is modified so that, at the same price, public customer orders resting in the book would have first priority, then the in-crowd market participants (to the extent each such market participant also qualifies for an exemption from Section 11(a)(1) but is not relying on the G exemption rule), then broker-dealer orders resting in the book, then the Floor Broker’s proprietary order (along with any other in-crowd market participants also relying on the G exemption rule). To the extent there may be any further remaining balance, same priced electronic quotes of Market-Makers would have priority to trade next.

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest.

Item 4. Self-Regulatory Organization's Statement on Burden on Competition

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

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)

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

(b) The Exchange asserts that the proposed rule change (i) will not significantly affect the protection of investors or the public interest, (ii) will not impose any significant burden on competition, and (iii) will not become operative for 30 days after the date of this filing. The Exchange notes that it provided a copy of this rule filing to the Commission prior to filing. For the foregoing reasons, this rule filing qualifies as a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 under the Act.¹³

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f)(6).

The Exchange requests that the Commission find good cause to waive the 30 day operative delay requirement as the proposed rule change is non-controversial in that the Exchange notes that at least one other options exchange already has in place rules that afford in-crowd participants priority over electronic trading interest and, as such, the proposed changes to the open outcry priority provisions for Hybrid classes present no novel issues.¹⁴ For these reasons, CBOE believes that waiver of the 30 day operative delay is reasonable and appropriate and consistent with the protection of investors and the public interest.

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.

¹⁴ See Rule 6.76(d) of NYSE Arca Inc.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-CBOE-2007-66)

Dated: _____

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding its Open Outcry Allocation Rules

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on _____, 2007, the Chicago Board Options Exchange, Incorporated (“Exchange” or “CBOE”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend its open outcry allocation rules for classes trading on the Hybrid Trading System (“Hybrid”). The text of the proposed rule change is available on the Exchange’s website (www.cboe.org/Legal), at the Exchange’s Office of the Secretary and at the Commission.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

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

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

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

1. Purpose

The Exchange is proposing to modify its open outcry allocation rules for Hybrid classes, which are contained in paragraph (b) of Rules 6.45A, Priority and Allocation of Equity Option Trades on the CBOE Hybrid System, and 6.45B, Priority and Allocation of Trades in Index Options and Options on ETFs on the CBOE Hybrid System, as applicable. Under the existing allocation rules, at the same execution price: (i) public customer orders in the electronic book have first priority, with multiple public customer orders prioritized based on time priority; (ii) in-crowd market participants and broker-dealer orders resting in the electronic book collectively have second priority, with the broker-dealer orders getting a “book market participant” share;⁵ and (iii) electronic quotes of Market-Makers have third

⁵ Under the existing allocation rules, the cumulative number of broker-dealer orders in the electronic book at the best price are deemed to be one “book market participant” regardless of the number of broker-dealer orders in the book. Also under the existing rules, the allocation due the broker-dealer orders in the electronic book by virtue of their being deemed a “book market participant” is as follows: If two or more bids (offers) represent the best price, one of which represents a book market participant, priority is afforded to the in-crowd market participants in the sequence in which their bids (offers) were made; provided, however, that (i) the first in-crowd market participant to respond is entitled to 70% of the order; (ii) the second in-crowd market

priority, with multiple bids or offers prioritized based on the electronic allocation algorithm in effect for the option class.⁶ The Exchange is proposing to revise the priority levels so that, at the same execution price: (i) public customer orders in the electronic book would continue to have first priority, with multiple public customer orders prioritized based on time priority; (ii) in-crowd market participants would have second priority, with multiple bids or offers prioritized based on the allocation algorithm provided in Rule 6.45(a) or (b);⁷ and (iii) broker-dealer orders resting in the electronic book and electronic quotes of Market-Makers

participant to respond (if ascertainable) is entitled to 70% of the remainder of the order (i.e., 70% of 30%); and (iii) the balance of the order is apportioned equally among the remaining in-crowd market participants bidding (offering) at the same price and the book market participant share. If it is not possible to determine the order in which in-crowd market participants responded, the balance of the order shall be apportioned equally among the remaining market participants bidding (offering) at the same price and, if applicable, the book market participant. If two or more bids (offers) represent the best price, each of which is NOT a book market participant, priority is afforded to the in-crowd market participants in accordance with the allocation principles contained in CBOE Rule 6.45(a) or (b), which generally provide that priority is afforded to such bids (offers) in the sequence in which they are made or, if the bids were made at the same time or in the event the sequence cannot be reasonably determined, priority is apportioned equally. See existing CBOE Rules 6.45A(b) and 6.45B(b).

⁶ The particular algorithm is determined on a class-by-class basis and can be based on either price-time priority, pro-rata priority or the Ultimate Match Algorithm (“UMA”). The UMA allocation formula has a component based on the number of market participants quoting at the best price (“Component A”) and a component based on the size of market participant quotes. Depending on the particular algorithm and class, additional priority overlays pertaining to public customer orders, Market-Maker participation entitlements and market turner may also apply. See CBOE Rule 6.45A(a) or 6.45B(a), as applicable.

⁷ Allocation among the in-crowd market participants in this manner is consistent with the existing CBOE Rule 6.45A(b) and 6.45B(b) allocation procedures that apply when there is NOT a book market participant. See note 5, supra.

would collectively have third priority, with multiple bids or offers prioritized based on the electronic allocation algorithm in effect for the option class.⁸

In addition, in order to transact proprietary orders⁹ on the floor of the Exchange pursuant to Rule 6.45A(b) or 6.45B(b), members must also ensure that they qualify for an exemption from Section 11(a)(1) of the Act.¹⁰ Members relying on Section 11(a)(1)(G) of the Act¹¹ and Rule 11a1-1(T) thereunder (commonly known as the “G exemption rule”)¹² as an exemption must comply with the requirements of that exemption before executing a proprietary order, including the requirement to yield priority to any bid or offer at the same price for the account of a person who is not, or is not associated with, a member (a “non-member”), irrespective of the size of any such bid or offer or the time when entered.

⁸ If the UMA algorithm is in effect, the cumulative number of broker-dealer orders in the electronic book at the best price are deemed one “market participant” for purposes of calculating Component A. See note 6, supra. In revising the priority algorithm to provide that in-crowd market participants have priority over the trading interests of both broker-dealer orders resting in the electronic and electronic quotes of Market-Makers, the Exchange notes that at least one other options exchange already has in place rules that afford in-crowd participants priority over electronic trading interests. See Rule 6.76(d) of NYSE Arca Inc. In addition, this change in the priority algorithm will make the open outcry priority rules for non-crossing transactions more consistent with the Exchange’s open outcry priority rules for crossing transactions, which currently provide for in-crowd market participants to have priority over the trading interests of both broker-dealer orders resting in the electronic book and electronic quotes of Market-Makers. See CBOE Rule 6.74, Crossing Orders.

⁹ For purposes of CBOE Rule 6.45A(b) or 6.45B(b), a “proprietary order” will mean an order for a member’s own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion.

¹⁰ 15 U.S.C. 78k(a)(1).

¹¹ 15 U.S.C. 78k(a)(1)(G).

¹² 17 CFR 240.11a1-1(T).

Because CBOE's electronic book does not distinguish between member and non-member broker-dealer orders, the revised priority provisions would further provide that members relying on the G exemption rule must yield priority to any bid (offer) at the same price of public customer orders and broker-dealer orders (whether non-member or member) resting in the electronic book, as well as any other bids and offers that would otherwise have priority over such broker-dealer orders under Rule 6.45A(b) or 6.45B(b).¹³

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act¹⁴ in general and furthers the objectives of Section 6(b)(5) of the Act¹⁵ in particular in that it is designed to promote just and equitable principles of trade, serve to remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest.

¹³ Thus, for example, a Floor Broker that is relying on the G exemption rule must first yield priority to any same priced public customer orders and broker-dealer orders resting in the electronic book, as well as any in-crowd market participants that would otherwise have priority over those broker-dealer orders, before executing a proprietary order. In such a scenario, the priority Rule 6.45A(b) or Rule 6.45B(b) priority sequence described above is modified so that, at the same price, public customer orders resting in the book would have first priority, then the in-crowd market participants (to the extent each such market participant also qualifies for an exemption from Section 11(a)(1) but is not relying on the G exemption rule), then broker-dealer orders resting in the book, then the Floor Broker's proprietary order (along with any other in-crowd market participants also relying on the G exemption rule). To the extent there may be any further remaining balance, same priced electronic quotes of Market-Makers would have priority to trade next.

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(5).

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

Because the foregoing rule does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, provided that the self-regulatory organization has given the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change or such shorter time as designated by the Commission, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁶ and Rule 19b-4(f)(6) thereunder.¹⁷ At any time within 60 days of the filing of such 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.

¹⁶ 15 U.S.C. 78s(b)(3)(A).

¹⁷ 17 CFR 240.19b-4(f)(6).

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-2007-66 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-2007-66. 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-2007-66 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.¹⁸

Nancy M. Morris
Secretary

Dated: _____

¹⁸ 17 CFR 200.30-3(a)(12).