

OMB APPROVAL

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

File No. SR - 2007 - 79

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 A Sent As Paper Document

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Exhibit C Sent As Paper Document

☐**Description**

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

Proposal to eliminate position and exercise limits for RUT 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 Klebes

Title Senior Attorney

E-mail klebes@cboe.com

Telephone (312) 786-7466

Fax (312) 786-7919

Signature

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

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

Date 07/16/2007

By Jennifer L. Klebes

(Name)

Senior Attorney/Assistant Secretary

(Title)

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

Jenny Klebes, klebes@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

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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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Exhibit Sent As Paper Document

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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 Proposed Rule Change

(a) The Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") proposes to eliminate position and exercise limits for options on the Russell 2000 Index ("RUT"), a broad-based securities index that is multiply-listed and heavily traded. The Exchange also proposes to amend Rules 24.4(a) and 24.5 to specify that reduced-value options on broad-based security indexes for which full-value options have no position and exercise limits similarly have no position and exercise limits. Additionally, the Exchange proposes to make technical changes to Rules 24.4, 24.5 and 24A.7. Set forth below are proposed changes to the rule text, with additions underlined and deletions [bracketed].

(b) Not applicable.

(c) Not applicable.

Chicago Board Options Exchange, Incorporated
Rules

* * * * *

Rule 24.4—Position Limits or Broad Based Index Options

RULE 24.4. (a) In determining compliance with Rule 4.11, there shall be no position limit for broad-based index option contracts (including reduced-value option contracts) on the DJX, OEX, XEO, NDX, RUT, VIX, VXN, VXD and SPX classes. All other broad-based index option contracts shall be subject to a contract limitation fixed by the Exchange, which shall not be larger than the limits provided in the chart below.

BROAD-BASED INDEX OPTION TYPE	STANDARD LIMIT (on the same side of the market)	RESTRICTIONS
[Nasdaq 100 Index (1/10 th) (MNX)]	[750,000]	[None]
[Russell 2000 Index (1/10 th)]	[500,000]	[no more than 300,000 near term]
Dow Jones Equity REIT Index	250,000 contracts	None

[Russell 2000 Index (1/5 th)]	[250,000 contracts]	[no more than 150,000 near term]
Lipper Analytical/Salomon Bros. Growth Fund Index Lipper Analytical/Salomon Bros. Growth and Income Fund Index	75,000 contracts	no more than 50,000 near-term
S&P 500/Barra Growth or Value	36,000 contracts in the aggregate	no more than 21,500 near-term
S&P SmallCap 600 GSTI Composite	100,000 contracts	no more than 60,000 near-term
[Russell 2000] Russell 1000 Russell 1000 Growth Russell 1000 Value Russell 2000 Growth Russell 2000 Value Russell 3000 Russell 3000 Growth Russell 3000 Value Russell Midcap Russell Midcap Growth Russell Midcap Value Russell Top 200 Index Russell Top 200 Growth Index Russell Top 200 Value Index Mexico 30 Index Germany 25 Morgan Stanley Multinational Company Index CBOE Euro 25 Index CBOE Asian 25 Index	50,000 contracts	no more than 30,000 near-term
Reduced Value NYSE Composite	45,000 contracts	no more than 25,000 near-term
CBOE Russell 2000 Volatility Index SM ("RVX SM ")	50,000 contracts	no more than 30,000 near-term
Other broad-based index	25,000 contracts	no more than 15,000 near-term

(b) – (e) No Change.

... *Interpretations and Policies:*

.01 Broad-based Index Hedge Exemption

The broad-based index hedge exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. The following procedures and criteria must be satisfied to qualify for a broad-based index hedge exemption.

(a) – (d) No Change.

(e) Positions in broad-based index options that are traded on the Exchange are exempt from the standard limits to the extent specified below.

BROAD-BASED INDEX OPTION TYPE	BROAD-BASED INDEX HEDGE EXEMPTION (is in addition to standard limit)
[Nasdaq 100 Stock Index (1/10 th value) (MNX)]	[1,500,000 contracts]
[Russell 2000 Index (1/10 th)]	[750,000 contract]
[Russell 2000 Index (1/5 th)]	[375,000 contracts]
S&P 500/Barra Growth or Value	65,000 contracts
other broad-based index	75,000 contracts

(f) – (h) No Change.

.02 No Change.

.03 Reporting Requirement

Each member (other than CBOE market-makers) or member organization that maintains a broad-based index option position on the same side of the market in excess of 100,000 contracts for OEX, XEO, NDX, RUT or SPX and 1 million contracts for DJX, for its own account or for the account of a customer, shall report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in the manner and form required by the Department of Market Regulation. In calculating the applicable contract-reporting amount, reduced-value contracts will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract (e.g., 10 XSP options equal 1 SPX full-value contract).

The Exchange may specify other reporting requirements of this interpretation as well as the limit at which the reporting requirement may be triggered.

. 04 Margin and Clearing Firm Requirements

Whenever the Exchange determines, based on a report by the Department of Market Regulation or otherwise, that additional margin is warranted in light of the risks associated with an under-hedged SPX, OEX, XEO, NDX, RUT or DJX option position, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position pursuant to its authority under Exchange Rule 12.10. Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under SEC Rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirements.

* * * * *

Rule 24.5 — Exercise Limits

RULE 24.5 In determining compliance with Rule 4.12, exercise limits for index option contracts shall be equivalent to the position limits prescribed for option contracts with the nearest expiration date in Rule 24.4 or 24.4A. There shall be no exercise limits for broad-based index options (including reduced-value option contracts) on DJX, OEX, XEO, NDX, RUT or SPX.

... Interpretations and Policies:

.01 - .03 No Change.

* * * * *

Rule 24A.7 — Position Limits for FLEX Narrow-Based Index Options; Reporting Requirements for Flex Broad-Based Index Options and Flex Equity Options Exercise Limits

RULE 24A.7. (a) No Change.

(b) *FLEX Broad-Based Index Options.* There shall be no position limits for FLEX DJX, OEX, XEO, NDX, RUT or SPX option contracts. However, each member (other than CBOE market-makers) or member organization that maintains a FLEX broad-based index option position on the same side of the market in excess of 100,000 contracts for OEX, NDX, RUT or SPX and 1 million contracts for DJX, for its own account or for the account of a customer, shall report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in the manner and form prescribed by the Department of Market Regulation. In calculating the applicable contract-reporting amount, reduced-value contracts will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract (e.g., 10 XSP options equal 1 SPX full-value contract). The Exchange may specify other reporting requirements of this interpretation as well as the limit at which the reporting requirement may be triggered. In addition, whenever the Exchange determines, based on a report by the Department of Market Regulation or otherwise, that additional margin is warranted in light of the risks associated with an under-hedged FLEX DJX, OEX, XEO, NDX, RUT, or SPX option position, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Exchange Rule 12.10. Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under SEC Rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirements.

(c) – (d) No Change.

* * * * *

Item 2. Procedures of the Self-Regulatory Organization

(a) CBOE's Office of the Chairman, pursuant to delegated authority, approved the proposed rule change on July 11, 2007. No further action is required.

(b) Please refer questions and comments on the proposed rule change to Joanne Moffic-Silver, General Counsel, CBOE, 400 South LaSalle, Chicago, IL 60605, (312) 786-7462 or to Jennifer Klebes, (312) 786-7466.

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

(a) Purpose

The Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") proposes to eliminate position and exercise limits for options on the Russell 2000 Index ("RUT"), a broad-based securities index that is multiply-listed and heavily traded.¹ The Exchange also proposes to amend Rules 24.4(a) and 24.5 to specify that reduced-value options on broad-based security indexes for which full-value options have no position and exercise limits similarly have no position and exercise limits. Additionally, the Exchange proposes to make technical changes to Rules 24.4, 24.5 and 24A.7 to specify that there are no position and exercise limits for European-

¹ The current position and exercise limits for RUT options are 50,000 contracts, with no more than 30,000 of such contracts in a series in the nearest expiration month, were established almost 15 years ago when the Securities and Exchange Commission ("Commission") approved the rule change that provided for the listing and trading of RUT options and have since remained unchanged. See Exchange Act Release No. 31382 (October 30, 1992), 57 FR 52802 (November 5, 1992) (approving SR-CBOE-1992-02). See also Rule 24.4, Position Limits for Broad-Based Index Options, and Rule 24.5, Exercise Limits, (providing that exercise limits for index option contracts are equivalent to prescribed position limits).

Style Exercise S&P 100 Index options ("XEO") and to add "XEO" to the position reporting and margin rules.

Eliminate Position and Exercise Limits for RUT Options

The Exchange believes that the circumstances and considerations relied upon by the Commission in approving the elimination of position and exercise limits for other heavily traded broad-based index options (e.g., options on the S&P 500 Index ("SPX"), the S&P 100 Index ("OEX"), the Dow Jones Industrial Average Index ("DJX") and the Nasdaq-100 Index ("NDX")) equally apply to the current proposal relating to RUT position and exercise limits.²

In approving the elimination of position limits for SPX, OEX, DJX and NDX options, the Commission considered the enormous capitalization of each of these indexes and the deep and liquid markets for the securities underlying each index significantly reduced concerns of market manipulation or disruption in the underlying markets. The Commission also noted the active trading volume for options on the respective indexes. RUT shares these factors in common with the SPX, OEX, DJX and NDX. As of the date of this rule filing, the approximate market capitalizations of the SPX, OEX, DJX and NDX were \$13.95 trillion, \$8.06 trillion, \$4.4 trillion and \$2.36 trillion, respectively, the average daily trading volumes ("ADVs") for all underlying components of the indexes were 1,270, 540, 240 and 400 million shares, respectively, and the

² See Securities Exchange Act Release No. 44994 (October 26, 2001), 66 FR 55722 (November 2, 2001) (order approving SR-CBOE-2001-22 and granting permanent approval to the elimination of position and exercise limits on SPX, OEX, and DJX options); see also Securities Exchange Act Release No. 52650 (October 21, 2005), 70 FR 62147 (October 28, 2005) (order approving SR-CBOE-2005-41 and eliminating position and exercise limits for NDX options). The Exchange also notes that there are no position and exercise limits for volatility index options based on the SPX, DJX and NDX.

ADV for options on the indexes were 610,000 contracts, 60,000 contracts, 34,000 contracts, and 58,000 contracts respectively.³ The RUT has very comparable characteristics. The market capitalization for the RUT is \$1.73 trillion dollars, the ADV for the underlying securities is 535 million shares, and the ADV for the option is 79,000 contracts.

In approving the elimination of position and exercise limits for SPX, OEX, DJX and NDX options, the Commission also noted that the financial requirements imposed by both the Exchange and the Commission serve to address any concerns that a CBOE member or its customer(s) may try to maintain an inordinately large unhedged position in the indexes. These identical financial requirements would also apply to RUT options. Under CBOE rules, the Exchange has the authority to impose additional margin and/ or assess capital charges and is further able to monitor accounts to determine when such action is warranted.⁴

Finally, the Commission relied heavily on the Exchange's ability to provide surveillance and reporting safeguards to detect and deter trading abuses arising from the elimination of position and exercise limits in options on these indexes. The Exchange represents that it monitors trading in RUT options in much the same manner as trading in SPX, OEX, DJX and NDX options and that the current CBOE surveillance procedures are more than adequate to continue monitoring RUT options. Additionally, the Exchange intends to impose a reporting requirement on CBOE members (other than CBOE market-makers) or member organizations that

³ ADVs are calculated over the previous three months of trading.

⁴ See Interpretation and Policy .04 to Rule 24.4 and also refer to Rule 15c3-1 under the Securities Exchange Act of 1934, as amended ("Act").

trade RUT options. This reporting requirement, which is currently imposed on members who trade SPX, OEX and NDX options, would require members or member organization who maintain in excess of 100,000 RUT contracts on the same side of the market, for their own accounts or for the account of customers, to report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in a manner and form required by the Exchange's Department of Market Regulation.⁵ The Exchange also may specify other reporting requirements, as well as the limit at which the reporting requirement may be triggered.⁶

In the interest of consistency, the Exchange also proposes to amend Exchange Rules relating to the trading of FLEX broad-based index options to reflect that there shall be no exercise or position limits on RUT options and to adopt the 100,000 contract reporting requirements for FLEX RUT options.⁷

In order to reflect the above-referenced proposed changes, the Exchange proposes to specify "RUT" in the text of Rules 24.4, Position and Limits for Broad-Based Index Options, and 24.5, Exercise Limits, as an option class on a broad-based index for which there are no position and exercise limits. Similarly, the Exchange proposes deleting the listing of "Russell 2000" from

⁵ See Interpretation and Policy .03 to Rule 24.4. The reporting requirements for DJX options are triggered at 1 million contracts.

⁶ Id.

⁷ See Rules 24A.7 and 24A.8. These rules are the subject of a pending rule filing, SR-CBOE-2006-99 (proposal to adopt rules related to FLEX Hybrid Trading System). Given the timing of the effectiveness of these two filings, the Exchange notes that an amendment may need to be submitted in order to reconcile the text of the two proposals.

the chart contained in Rule 24.4(a). Additionally, the Exchange proposes adding "RUT" to the text of Rule 24.4.03, Reporting Requirements, and to the text of Rule 24.4.04, Margin and Clearing Firm Requirements. Finally, the Exchange proposes adding "RUT" to the text of Rule 24A.7, Position Limits for FLEX narrow-Based Index Options; Reporting Requirements for Flex Broad-Based Index Options and Flex Equity Options.

The Exchange believes that eliminating position and exercise limits for RUT options and FLEX options is consistent with CBOE rules relating to similar broad-based indexes and also allows CBOE members and their customers greater hedging and investment opportunities.

No Position and Exercise Limits for Reduced-Value Options on Broad-Based Indexes for Which There are No Position and Exercise Limits for Full-Value Options

The Exchange lists and trades several reduced-value options on broad-based indexes for which the Exchange also lists and trades full-value options (e.g., Mini-SPX Index ("XSP") options, Mini-Russell 2000 Index ("RMN") options and Mini-Nasdaq-100 Index ("MNX") options). When the Exchange received approval to list and trade reduced-value options on broad-based indexes, the proscribed position and exercise limits were equivalent to the reduced-value contract factor (e.g., 10) multiplied by the applicable position and exercise limits for the full-value option on the same broad-based index.⁸ For example, the position and exercise limits

⁸ See Securities Exchange Act Release No. 32893 (September 14, 1993), 58 FR 49070 (September 21, 1993) (order approving SR-CBOE-1993-12 to list and trade XSP options); see also Securities Exchange Act Release No. 43000 (July 10, 2000), 65 FR 42409 (July 30, 2000) (order approving SR-CBOE-2000-15 to list and trade MNX options); see also Securities Exchange Act Release No. 51220 (February 17, 2005), 70 FR 9398 (February 25, 2005) (order approving SR-CBOE-2004-89 to list and trade RMN options and other reduced-value options on the Russell 2000 Index).

for RMN options ($1/10^{\text{th}}$ RUT value) are 500,000 contracts, which is equal to the applicable factor (10) multiplied by the position limit for RUT options (50,000). In other words, the Exchange's existing rules applicable to position and exercise limits for full-value broad-based index options are used to calculate the position and exercise limits for reduced-value options.⁹

Conversely, when the Exchange's rules specifically state that certain full-value broad-based index options have no position and exercise limits, the same equally applies to reduced-value options on those same broad-based indexes.¹⁰ In order to codify this provision, the Exchange proposes to amend Rules 24.4, Position Limits for Broad-Based Index Options, and 24.5, Exercise Limits, by adding the parenthetical phrase, "including reduced-value option contracts" prior to the identification of those full-value broad-based index options for which there are no position and exercise limits.

To reflect that there are no position limits for reduced-value options on the Russell 2000 Index and the Nasdaq-1000 Index, the Exchange proposes deleting the listing of "Nasdaq 100 Index ($1/10^{\text{th}}$) (MNX)," and "Russell 2000 Index ($1/10^{\text{th}}$)" from the chart contained in Rule 24.4(a). Similarly, the Exchange proposes deleting the listing of "Nasdaq100 Stock Index ($1/10^{\text{th}}$ value (MNX)," "Russell 2000 Index ($1/10^{\text{th}}$)," and "Russell 2000 Index ($1/5^{\text{th}}$)" from the charted

⁹ See Rule 24.4(d) ("Positions in reduced-value index options shall be aggregated with positions in full-value indices. For example, if an index is reduced by one-tenth, ten (10) reduced-value contracts shall equal one contract. If an index is reduced by one-fifth, five (5) reduced-value contracts shall equal one contract.").

¹⁰ See e.g., Securities Exchange Act Release No. 50759 (November 30, 2004), 69 FR 70728 (December 7, 2004) (SR-CBOE-2004-74) (immediately effective proposal to list, among other things, reduced-value options on the XEO for which there are no position and exercise limits because XEO has no position and exercise limits).

contained in Rule 24.4.01(e).¹¹

Additionally, because position and exercise limits for reduced-value options are aggregated with full-value options for purposes of determining compliance with position and exercise limits, the Exchange proposes amending Rules 24.4.03 and 24A.7 to reflect that such aggregation will apply when calculating reporting requirements.¹² Specifically, the Exchange proposes to add the sentence, "[i]n calculating the applicable contract-reporting amount, reduced-value contracts will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract (e.g., 10 XSP options equal 1 SPX full-value contract)."

Technical XEO Option Changes

Lastly, the Exchange proposes to make technical changes to Rules 24.4, 24.5 to specify that there are no position and exercise limits for XEO Options.¹³ The Exchange proposes to reflect this by adding "XEO" to the text of Rules 24.4 and 24.5. Additionally, the Exchange proposes to add "XEO" to the text of Rule 24.4.03, Reporting Requirement, and the text of Rule 24.4.04, Margin and Clearing Firm Requirements. Finally, the Exchange proposes to add "XEO"

¹¹ The Exchange inadvertently neglected to request the Commission's approval to delete the text listing MNX options in these rules when the Exchange eliminated position and exercise limits for NDX options. See Securities Exchange Act Release No. 52650 (October 21, 2005), 70 FR 62147 (October 28, 2005) (order approving elimination of position and exercise limits for NDX options).

¹² See also Rule 24.4(d).

¹³ See Securities Exchange Act Release No. 44994 (October 26, 2001), 66 FR 55722 (November 2, 2001) (order approving SR-CBOE-2001-22 and granting permanent approval to the elimination of position and exercise limits on SPX, OEX, and DJX options). The only difference between OEX and XEO options is the manner in which the respective contracts are exercised (i.e., American-style versus European-style).

to the text of Rule 24A.7, Position Limits for FLEX narrow-Based Index Options; Reporting Requirements for Flex Broad-Based Index Options and Flex Equity Options.

(b) Statutory Basis

Because this rule proposal will place position and exercise limits for RUT options that are multiply-listed and heavily-traded on an equal basis with other similar and heavily-traded broad-based index options and because it will make the Exchange's rules more explicit with respect to position and exercise limits and other reporting and margin requirements, the Exchange believes the rule proposal is consistent with the Act and the rules and regulations under the Act applicable to a national securities exchange and, in particular, the requirements of Section 6(b) of the Act.¹⁴ Specifically, the Exchange believes that the proposed rule change is consistent with the Section 6(b)(5) Act¹⁵ requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts 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.

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(5).

Item 6. Extension of Time Period for Commission Action

The Exchange does not consent to an extension of the time period specified in Section 19(b)(2) of the Act for Commission consideration of the proposed rule change.

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

Not Applicable.

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

This proposed rule change, as amended, 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.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-CBOE-2007-79)

Dated: _____

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change to Eliminate Position and Exercise Limits for Options on the Russell 2000 Index, and to Specify that Reduced-Value Options on Broad-Based Security Indexes for which Full-Value Options Have No Position and Exercise Limits Similarly Have No Position and Exercise Limits

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 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 eliminate position and exercise limits for options on the Russell 2000 Index ("RUT"), a broad-based securities index that is multiply-listed and heavily traded. The Exchange also proposes to amend Rules 24.4(a) and 24.5 to specify that reduced-value options on broad-based security indexes for which full-value options have no position and exercise limits similarly have no position and exercise limits. Additionally, the Exchange proposes to make technical changes to Rules 24.4, 24.5 and 24A.7. The text of the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

rule proposal 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 proposes to eliminate position and exercise limits for options on the RUT, a broad-based securities index that is multiply-listed and heavily traded.³ The Exchange also proposes to amend Rules 24.4(a) and 24.5 to specify that reduced-value options on broad-based security indexes for which full-value options have no position and exercise limits similarly have no position and exercise limits. Additionally, the Exchange proposes to make technical changes to Rules 24.4, 24.5 and 24A.7 to specify that there are no position and exercise limits for European-Style Exercise S&P 100 Index options ("XEO")

³ The current position and exercise limits for RUT options are 50,000 contracts, with no more than 30,000 of such contracts in a series in the nearest expiration month, were established almost 15 years ago when the Commission approved the rule change that provided for the listing and trading of RUT options and have since remained unchanged. See Exchange Act Release No. 31382 (October 30, 1992), 57 FR 52802 (November 5, 1992) (approving SR-CBOE-1992-02). See also Rule 24.4, Position Limits for Broad-Based Index Options, and Rule 24.5, Exercise Limits, (providing that exercise limits for index option contracts are equivalent to prescribed position limits).

and to add "XEO" to the position reporting and margin rules.

Eliminate Position and Exercise Limits for RUT Options

The Exchange believes that the circumstances and considerations relied upon by the Commission in approving the elimination of position and exercise limits for other heavily traded broad-based index options (e.g., options on the S&P 500 Index ("SPX"), the S&P 100 Index ("OEX"), the Dow Jones Industrial Average Index ("DJX") and the Nasdaq-100 Index ("NDX")) equally apply to the current proposal relating to RUT position and exercise limits.⁴

In approving the elimination of position limits for SPX, OEX, DJX and NDX options, the Commission considered the enormous capitalization of each of these indexes and the deep and liquid markets for the securities underlying each index significantly reduced concerns of market manipulation or disruption in the underlying markets. The Commission also noted the active trading volume for options on the respective indexes. RUT shares these factors in common with the SPX, OEX, DJX and NDX. As of the date of this rule filing, the approximate market capitalizations of the SPX, OEX, DJX and NDX were \$13.95 trillion, \$8.06 trillion, \$4.4 trillion and \$2.36 trillion, respectively, the average daily trading volumes ("ADVs") for all underlying components of the indexes were 1,270, 540, 240 and 400 million shares, respectively, and the ADV for options on the indexes were 610,000 contracts, 60,000 contracts, 34,000 contracts, and 58,000 contracts respectively.⁵ The RUT has very

⁴ See Securities Exchange Act Release No. 44994 (October 26, 2001), 66 FR 55722 (November 2, 2001) (order approving SR-CBOE-2001-22 and granting permanent approval to the elimination of position and exercise limits on SPX, OEX, and DJX options); see also Securities Exchange Act Release No. 52650 (October 21, 2005), 70 FR 62147 (October 28, 2005) (order approving SR-CBOE-2005-41 and eliminating position and exercise limits for NDX options). The Exchange also notes that there are no position and exercise limits for volatility index options based on the SPX, DJX and NDX.

⁵ ADVs are calculated over the previous three months of trading.

comparable characteristics. The market capitalization for the RUT is \$1.73 trillion dollars, the ADV for the underlying securities is 535 million shares, and the ADV for the option is 79,000 contracts.

In approving the elimination of position and exercise limits for SPX, OEX, DJX and NDX options, the Commission also noted that the financial requirements imposed by both the Exchange and the Commission serve to address any concerns that a CBOE member or its customer(s) may try to maintain an inordinately large unhedged position in the indexes. These identical financial requirements would also apply to RUT options. Under CBOE rules, the Exchange has the authority to impose additional margin and/ or assess capital charges and is further able to monitor accounts to determine when such action is warranted.⁶

Finally, the Commission relied heavily on the Exchange's ability to provide surveillance and reporting safeguards to detect and deter trading abuses arising from the elimination of position and exercise limits in options on these indexes. The Exchange represents that it monitors trading in RUT options in much the same manner as trading in SPX, OEX, DJX and NDX options and that the current CBOE surveillance procedures are more than adequate to continue monitoring RUT options. Additionally, the Exchange intends to impose a reporting requirement on CBOE members (other than CBOE market-makers) or member organizations that trade RUT options. This reporting requirement, which is currently imposed on members who trade SPX, OEX and NDX options, would require members or member organization who maintain in excess of 100,000 RUT contracts on the same side of the market, for their own accounts or for the account of customers, to report information as to whether the positions are hedged and provide documentation as to how

⁶ See Interpretation and Policy .04 to Rule 24.4 and also refer to Rule 15c3-1 under the Securities Exchange Act of 1934, as amended ("Act").

such contracts are hedged, in a manner and form required by the Exchange's Department of Market Regulation.⁷ The Exchange also may specify other reporting requirements, as well as the limit at which the reporting requirement may be triggered.⁸

In the interest of consistency, the Exchange also proposes to amend Exchange Rules relating to the trading of FLEX broad-based index options to reflect that there shall be no exercise or position limits on RUT options and to adopt the 100,000 contract reporting requirements for FLEX RUT options.⁹

In order to reflect the above-referenced proposed changes, the Exchange proposes to specify "RUT" in the text of Rules 24.4, Position and Limits for Broad-Based Index Options, and 24.5, Exercise Limits, as an option class on a broad-based index for which there are no position and exercise limits. Similarly, the Exchange proposes deleting the listing of "Russell 2000" from the chart contained in Rule 24.4(a). Additionally, the Exchange proposes adding "RUT" to the text of Rule 24.4.03, Reporting Requirements, and to the text of Rule 24.4.04, Margin and Clearing Firm Requirements. Finally, the Exchange proposes adding "RUT" to the text of Rule 24A.7, Position Limits for FLEX narrow-Based Index Options; Reporting Requirements for Flex Broad-Based Index Options and Flex Equity Options.

The Exchange believes that eliminating position and exercise limits for RUT options

⁷ See Interpretation and Policy .03 to Rule 24.4. The reporting requirements for DJX options are triggered at 1 million contracts.

⁸ Id.

⁹ See Rules 24A.7 and 24A.8. These rules are the subject of a pending rule filing, SR-CBOE-2006-99 (proposal to adopt rules related to FLEX Hybrid Trading System). Given the timing of the effectiveness of these two filings, the Exchange notes that an amendment may need to be submitted in order to reconcile the text of the two proposals.

and FLEX options is consistent with CBOE rules relating to similar broad-based indexes and also allows CBOE members and their customers greater hedging and investment opportunities.

No Position and Exercise Limits for Reduced-Value Options on Broad-Based Indexes for Which There are No Position and Exercise Limits for Full-Value Options

The Exchange lists and trades several reduced-value options on broad-based indexes for which the Exchange also lists and trades full-value options (e.g., Mini-SPX Index ("XSP") options, Mini-Russell 2000 Index ("RMN") options and Mini-Nasdaq-100 Index ("MNX") options). When the Exchange received approval to list and trade reduced-value options on broad-based indexes, the proscribed position and exercise limits were equivalent to the reduced-value contract factor (e.g., 10) multiplied by the applicable position and exercise limits for the full-value option on the same broad-based index.¹⁰ For example, the position and exercise limits for RMN options (1/10th RUT value) are 500,000 contracts, which is equal to the applicable factor (10) multiplied by the position limit for RUT options (50,000). In other words, the Exchange's existing rules applicable to position and exercise limits for full-value broad-based index options are used to calculate the position and exercise limits for reduced-value options.¹¹

¹⁰ See Securities Exchange Act Release No. 32893 (September 14, 1993), 58 FR 49070 (September 21, 1993) (order approving SR-CBOE-1993-12 to list and trade XSP options); see also Securities Exchange Act Release No. 43000 (July 10, 2000), 65 FR 42409 (July 30, 2000) (order approving SR-CBOE-2000-15 to list and trade MNX options); see also Securities Exchange Act Release No. 51220 (February 17, 2005), 70 FR 9398 (February 25, 2005) (order approving SR-CBOE-2004-89 to list and trade RMN options and other reduced-value options on the Russell 2000 Index).

¹¹ See Rule 24.4(d) ("Positions in reduced-value index options shall be aggregated with positions in full-value indices. For example, if an index is reduced by one-tenth, ten (10) reduced-value contracts shall equal one contract. If an index is reduced by one-fifth, five (5) reduced-value contracts shall equal one contract.").

Conversely, when the Exchange's rules specifically state that certain full-value broad-based index options have no position and exercise limits, the same equally applies to reduced-value options on those same broad-based indexes.¹² In order to codify this provision, the Exchange proposes to amend Rules 24.4, Position Limits for Broad-Based Index Options, and 24.5, Exercise Limits, by adding the parenthetical phrase, "including reduced-value option contracts" prior to the identification of those full-value broad-based index options for which there are no position and exercise limits.

To reflect that there are no position limits for reduced-value options on the Russell 2000 Index and the Nasdaq-1000 Index, the Exchange proposes deleting the listing of "Nasdaq 100 Index (1/10th) (MNX)," and "Russell 2000 Index (1/10th)" from the chart contained in Rule 24.4(a). Similarly, the Exchange proposes deleting the listing of "Nasdaq100 Stock Index (1/10th value (MNX)," "Russell 2000 Index (1/10th)," and "Russell 2000 Index (1/5th)" from the charted contained in Rule 24.4.01(e).¹³

Additionally, because position and exercise limits for reduced-value options are aggregated with full-value options for purposes of determining compliance with position and exercise limits, the Exchange proposes amending Rules 24.4.03 and 24A.7 to reflect that such aggregation will apply when calculating reporting requirements.¹⁴ Specifically, the

¹² See e.g., Securities Exchange Act Release No. 50759 (November 30, 2004), 69 FR 70728 (December 7, 2004) (SR-CBOE-2004-74) (immediately effective proposal to list, among other things, reduced-value options on the XEO for which there are no position and exercise limits because XEO has no position and exercise limits).

¹³ The Exchange inadvertently neglected to request the Commission's approval to delete the text listing MNX options in these rules when the Exchange eliminated position and exercise limits for NDX options. See Securities Exchange Act Release No. 52650 (October 21, 2005), 70 FR 62147 (October 28, 2005) (order approving elimination of position and exercise limits for NDX options).

¹⁴ See also Rule 24.4(d).

Exchange proposes to add the sentence, "[i]n calculating the applicable contract-reporting amount, reduced-value contracts will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract (e.g., 10 XSP options equal 1 SPX full-value contract)."

Technical XEO Option Changes

Lastly, the Exchange proposes to make technical changes to Rules 24.4, 24.5 to specify that there are no position and exercise limits for XEO Options.¹⁵ The Exchange proposes to reflect this by adding "XEO" to the text of Rules 24.4 and 24.5. Additionally, the Exchange proposes to add "XEO" to the text of Rule 24.4.03, Reporting Requirement, and the text of Rule 24.4.04, Margin and Clearing Firm Requirements. Finally, the Exchange proposes to add "XEO" to the text of Rule 24A.7, Position Limits for FLEX narrow-Based Index Options; Reporting Requirements for Flex Broad-Based Index Options and Flex Equity Options.

2. Statutory Basis

Because this rule proposal will place position and exercise limits for RUT options that are multiply-listed and heavily-traded on an equal basis with other similar and heavily-traded broad-based index options and because it will make the Exchange's rules more explicit with respect to position and exercise limits and other reporting and margin requirements, the Exchange believes the rule proposal is consistent with the Act and the rules and regulations under the Act applicable to a national securities exchange and, in particular, the requirements

¹⁵ See Securities Exchange Act Release No. 44994 (October 26, 2001), 66 FR 55722 (November 2, 2001) (order approving SR-CBOE-2001-22 and granting permanent approval to the elimination of position and exercise limits on SPX, OEX, and DJX options). The only difference between OEX and XEO options is the manner in which the respective contracts are exercised (i.e., American-style versus European-style).

of Section 6(b) of the Act.¹⁶ Specifically, the Exchange believes that the proposed rule change is consistent with the Section 6(b)(5) Act¹⁷ requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts 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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve such proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

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

¹⁶ 15 U.S.C. 78f(b).

¹⁷ 15 U.S.C. 78f(b)(5).

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-2007-79 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-2007-79. 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. 579, will be available for inspection and copying in the Commission's Public Reference Section, 100 F Street, NE, Washington, DC 20549-9303. 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-2007-79 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

Secretary

Dated: _____

¹⁸ 17 CFR 200.30-3(a)(12).