

## OMB APPROVAL

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Page 1 of 21

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

File No. SR - 2007 - 81

Amendment No. 

Proposed Rule Change by Chicago Board Options Exchange  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input type="checkbox"/>	Section 19(b)(3)(A) <input checked="" type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action <input type="text"/>			<input checked="" 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)		
Date Expires <input type="text"/>					

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).

CBOE proposal to amend its rules pertaining to Credit Default Options to set out certain parameters that CBOE intends to use for determining the applicable share to be allocated to a Successor Reference Entity if there is a Credit Default Option contract adjustment due to a Succession Event.

**Contact Information**

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

First Name  Last Name   
Title   
E-mail   
Telephone  Fax

**Signature**

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

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

Date By 

(Name)

(Title)

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

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information**

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change**

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3).

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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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

The Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) proposes to amend its rules pertaining to Credit Default Options (“CDOs”) in order to set out certain parameters that the Exchange intends to use for determining the applicable share to be allocated to a Successor Reference Entity if there is a CDO contract adjustment due to a Succession Event.<sup>1</sup> The text of the proposed rule change is provided below (additions are underlined).

## Chicago Board Options Exchange, Incorporated

## Rules

\* \* \* \* \*

## Rule 29.4 - Adjustments

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

(1) Adjustment for Succession: Each Credit Default Option will be replaced by one or more Credit Default Options derived from Successor Reference Entities that have succeeded the original Reference Entity as a result of a Succession Event based on the applicable share of each Successor Reference Entity.

(i) A “Successor Reference Entity” and a “Succession Event” will be defined in accordance with the terms of the Relevant Obligation(s). In determining the applicable share, an equal share will be allocated to each Successor Reference Entity that has succeeded the original Reference Entity as issuer or guarantor of at least one Relevant Obligation and at least 25% of the principal amount of the original Reference Entity’s outstanding debt obligations other than non-recourse indebtedness. If no Successor Reference Entity satisfies the “at least 25%” requirement and the original Reference Entity does not survive following the Succession Event, an equal share will be allocated to the Successor Reference Entity(ies) that succeeded to the largest percentage of the original Reference Entity’s outstanding debt obligations other than non-recourse indebtedness.

(ii) In respect of each successor Credit Default Option, the cash settlement amount and contract multiplier will be adjusted based on the applicable share of each Successor Reference Entity. All other terms and conditions of each successor Credit Default Option will be the same as the original Credit Default Option unless the

<sup>1</sup> The terms “applicable share,” “Successor Reference Entity” and “Succession Event” are described further below.

Exchange determines, in its sole discretion, that a modification is necessary and appropriate for the protection of investors and the public interest, including but not limited to the maintenance of fair and orderly markets, consistency of interpretation and practice, and the efficiency of settlement procedures.

(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) The Exchange will confirm adjustment events based on at least two sources, which may include announcements published via newswire services or information services companies, the names of which will be announced to the membership via Regulatory Circular, and/or information submitted to or filed with the courts, the SEC, an exchange or association, the Clearing Corporation, or another regulatory agency or similar authority.

(c) When adjustments have been made, announcement of that fact will be made by the Exchange, and the adjusted [unit of trading and the adjusted exercise price] cash settlement amount(s) and the adjusted contract multiplier(s) will be posted at the post at which the series is traded and will be effective at the time specified in the announcement for all subsequent transactions in [that] the series.

(d) Every determination of the Exchange pursuant to this Rule 29.4 will be within its sole discretion and shall be conclusive and binding on all holders and sellers and not subject to review.

Rule 29.4 replaces, for purposes of this Chapter XXIX, Rule 5.7.

\* \* \* \* \*

## 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 July 16, 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<sup>2</sup> in one or more debt securities of an issuer or guarantor.<sup>3</sup> The Exchange is now proposing to amend Rule 29.4, Adjustments, in order to set out certain parameters that the Exchange intends to use for determining the applicable share to be allocated to a Successor Reference Entity if there is a CDO contract adjustment due to a Succession Event.<sup>4</sup>

By way of background, the cash settlement amount for a CDO is generally \$100,000 per contract (equal to an exercise settlement value of \$100 multiplied by a contract multiplier

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<sup>2</sup> 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 (other than non-recourse indebtedness) that underlie a CDO are referred to as the "Relevant Obligations". 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) and subject to certain minimum threshold amounts provided in Rule 29.1(c).

<sup>3</sup> See Securities Exchange Act Release No. 55871 (June 6, 2007), 72 FR 32372 (June 12, 2007)(SR-CBOE-2006-84).

<sup>4</sup> A "Successor Reference Entity" and a "Succession Event" are defined in accordance with the terms of the Relevant Obligation(s). See Rule 29.4(a)(1)(i).

of 1,000) upon automatic exercise if the Exchange confirms a Credit Event.<sup>5</sup> If a Credit Event is not confirmed, the cash settlement value will be \$0. Among other things, Rule 29.4 provides that CDO contracts will be subject to adjustment and replaced by one or more CDOs derived from Successor Reference Entities based on the applicable share of each Successor Reference Entity. The “applicable share” is a percentage amount used to determine the adjusted cash settlement amount and adjusted contract multiplier applicable to each replacement CDO.<sup>6</sup> For example, if there are two Successor Reference Entities that each have an applicable share of 50%, the cash settlement amount for each replacement CDO would be \$50,000 (equal to an exercise settlement value of \$100 multiplied by the revised contract multiplier of 500).

Currently, the rule is silent regarding the calculation of the applicable share. Based on feedback from potential CDO investors and in order to provide more clarity and certainty to such investors, the Exchange is proposing to codify certain parameters that it intends to utilize in determining the applicable share. As set out in the proposed revisions to the rule text, in determining the applicable share the Exchange as a general rule would allocate an equal share to each Successor Reference Entity that has succeeded the Reference Entity as issuer and guarantor of (i) at least one Relevant Obligation and (ii) at least 25% of the original Reference Entity’s outstanding debt obligations other than non-recourse indebtedness. If no Successor Reference Entity satisfies the “at least 25%” requirement and the original Reference Entity does not survive following the Succession Event, an equal share

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<sup>5</sup> See Rule 29.1(a).

<sup>6</sup> Every determination by the Exchange pursuant to Rule 29.4 is within the Exchange’s sole discretion, is conclusive and binding on all holders and sellers, and is not subject

will be allocated to the Successor Reference Entity(ies) that succeeded to the largest percentage of the original Reference Entity's outstanding debt obligations other than non-recourse indebtedness.<sup>7</sup> These applicable share parameters would override any contradictory provision in the Relevant Obligation(s) terms. In addition, the Exchange intends to apply these parameters to all presently listed and any future-listed CDO contracts.

The following examples illustrate the application of the parameters:

- Assume a Succession Event is confirmed by the Exchange in a Reference Entity with \$100 million outstanding in debt obligations and, under the terms of the Succession Event, Successor Reference Entity A succeeds to certain Relevant Obligations and other debt obligations totaling \$40 million (40% of the original Reference Entity's outstanding debt obligations), Successor Reference Entity B succeeds to certain Relevant Obligations and other debt obligations totaling \$30 million (30%), and Successor Reference Entity C succeeds to all other Relevant Obligations and other debt obligations totaling \$30 million (30%). A CDO contract overlying Relevant Obligations on the original Reference Entity would be adjusted and replaced with three new CDOs, one each for Successor Reference Entities A, B and C, and each having an equal share value equivalent to 33.333%, the "applicable share," of the original CDO contract (e.g., 33.333% of \$100,000 or \$33,333, which is equal to an exercise settlement value of \$100 multiplied by the revised contract multiplier of 333.33).

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to review. See Rule 29.4(d).

<sup>7</sup> If no Successor Reference Entity satisfies the "at least 25%" requirement and the original Reference Entity survives, then no Succession Event will be deemed to have occurred and the CDO contract will not be adjusted.

- Assume a Succession Event is confirmed by the Exchange in a Reference Entity with \$100 million outstanding in debt obligations and, under the terms of the Succession Event, Successor Reference Entity A succeeds to certain Relevant Obligations and other debt obligations totaling \$45 million (45% of the original Reference Entity's outstanding debt obligations), Successor Reference Entity B succeeds to certain Relevant Obligations and other debt obligations totaling \$40 million (40%), and Successor Reference Entity C succeeds to all other Relevant Obligations and other debt obligations totaling \$15 million (15%). A CDO contract overlying Relevant Obligations on the original Reference Entity would be adjusted and replaced with two new CDOs, one each for Successor Reference Entities A and B, and each having an equal share value equivalent to 50% of the original CDO contract (e.g., 50% of \$100,000 or \$50,000, which is equal to an exercise settlement value of \$100 multiplied by the revised contract multiplier of 500). Successor Reference Entity C's applicable share would be 0.
- Assume a Succession Event is confirmed by the Exchange in a Reference Entity with \$100 million outstanding in debt obligations and, under the terms of the Succession Event, Successor Reference Entities A and B each succeed to certain Relevant Obligations and other debt obligations totaling \$23 million each (23% of the original Reference Entity's outstanding debt obligations) and Successor Reference Entities C, D and E each succeed to certain Relevant Obligations and other debt obligations totaling \$18 million each (18%). A CDO contract overlying Relevant Obligations on the original Reference Entity would be adjusted and replaced with two new CDOs, one each for Successor Reference



Entities A and B, and each having an equal share value equivalent to 50% of the original CDO contract (e.g., 50% of \$100,000 or \$50,000, which is equal to an exercise settlement value of \$100 multiplied by the revised contract multiplier of 500). Successor Reference Entities C, D and E's applicable shares would be 0.

As indicated above, the Exchange is proposing to codify these parameters for determining the applicable share of each Successor Reference Entity based on feedback we have received thus far from potential CDO investors. The Exchange believes that setting forth these parameters would clarify how the Exchange intends to administer the Succession Event confirmation process, thereby affording investors with additional clarity and certainty regarding the impact of a Succession Event on an outstanding CDO contract. The Exchange also understands that these parameters would be substantially similar to and generally consistent with the practice in the over-the-counter market.

Finally, the Exchange is also proposing a non-substantive change to Rule 29.4. Specifically, the Exchange is substituting the phrase "the adjusted cash settlement amount(s) and the adjusted contract multiplier(s)" for "adjusted unit of trading and the adjusted exercise price" in paragraph (c) to be consistent with the use and meaning of those terms elsewhere in the rule text.

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act")<sup>8</sup> and the rules and regulations under the Act applicable to

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<sup>8</sup> 15 U.S.C. 78s(b)(1).

national securities exchanges and, in particular, the requirements of Section 6(b) of the Act.<sup>9</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>10</sup> 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. As indicated above, the Exchange believes that setting forth the “applicable share” parameters would clarify how the Exchange intends to administer the Succession Event confirmation process, thereby affording investors with additional clarity and certainty regarding the impact of a Succession Event on an outstanding CDO contract.

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<sup>11</sup> for Commission consideration of the proposed rule change.

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<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

<sup>11</sup> 15 U.S.C. 78s(b)(2).

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.<sup>12</sup>

(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)(i) of the Act<sup>13</sup> and Rule 19b-4(f)(1) thereunder.<sup>14</sup>

(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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<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>14</sup> 17 CFR 240.19b-4(f)(1).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-       ; File No. SR-CBOE-2007-81)

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”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> 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)(i) of the Act,<sup>3</sup> and Rule 19b-4(f)(1) thereunder,<sup>4</sup> 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 set out certain parameters that the Exchange intends to use for

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>4</sup> 17 CFR 240.19b-4(f)(1).

determining the applicable share to be allocated to a Successor Reference Entity if there is a CDO contract adjustment due to a Succession Event.<sup>5</sup> 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<sup>6</sup> in one or more debt securities

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<sup>5</sup> The terms "applicable share," "Successor Reference Entity" and "Succession Event" are described further below.

<sup>6</sup> 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 (other than non-recourse indebtedness) that underlie a CDO are referred to as the "Relevant Obligations". 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) and subject to certain minimum threshold amounts provided in Rule 29.1(c).

of an issuer or guarantor.<sup>7</sup> The Exchange is now proposing to amend Rule 29.4, Adjustments, in order to set out certain parameters that the Exchange intends to use for determining the applicable share to be allocated to a Successor Reference Entity if there is a CDO contract adjustment due to a Succession Event.<sup>8</sup>

By way of background, the cash settlement amount for a CDO is generally \$100,000 per contract (equal to an exercise settlement value of \$100 multiplied by a contract multiplier of 1,000) upon automatic exercise if the Exchange confirms a Credit Event.<sup>9</sup> If a Credit Event is not confirmed, the cash settlement value will be \$0. Among other things, Rule 29.4 provides that CDO contracts will be subject to adjustment and replaced by one or more CDOs derived from Successor Reference Entities based on the applicable share of each Successor Reference Entity. The “applicable share” is a percentage amount used to determine the adjusted cash settlement amount and adjusted contract multiplier applicable to each replacement CDO.<sup>10</sup> For example, if there are two Successor Reference Entities that each have an applicable share of 50%, the cash settlement amount for each replacement CDO would be \$50,000 (equal to an exercise settlement value of \$100 multiplied by the revised contract multiplier of 500).

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<sup>7</sup> See Securities Exchange Act Release No. 55871 (June 6, 2007), 72 FR 32372 (June 12, 2007)(SR-CBOE-2006-84).

<sup>8</sup> A “Successor Reference Entity” and a “Succession Event” are defined in accordance with the terms of the Relevant Obligation(s). See Rule 29.4(a)(1)(i).

<sup>9</sup> See Rule 29.1(a).

<sup>10</sup> Every determination by the Exchange pursuant to Rule 29.4 is within the Exchange’s sole discretion, is conclusive and binding on all holders and sellers, and is not subject to review. See Rule 29.4(d).

Currently, the rule is silent regarding the calculation of the applicable share. Based on feedback from potential CDO investors and in order to provide more clarity and certainty to such investors, the Exchange is proposing to codify certain parameters that it intends to utilize in determining the applicable share. As set out in the proposed revisions to the rule text, in determining the applicable share the Exchange as a general rule would allocate an equal share to each Successor Reference Entity that has succeeded the Reference Entity as issuer and guarantor of (i) at least one Relevant Obligation and (ii) at least 25% of the original Reference Entity's outstanding debt obligations other than non-recourse indebtedness. If no Successor Reference Entity satisfies the "at least 25%" requirement and the original Reference Entity does not survive following the Succession Event, an equal share will be allocated to the Successor Reference Entity(ies) that succeeded to the largest percentage of the original Reference Entity's outstanding debt obligations other than non-recourse indebtedness.<sup>11</sup> These applicable share parameters would override any contradictory provision in the Relevant Obligation(s) terms. In addition, the Exchange intends to apply these parameters to all presently listed and any future-listed CDO contracts.

The following examples illustrate the application of the parameters:

- Assume a Succession Event is confirmed by the Exchange in a Reference Entity with \$100 million outstanding in debt obligations and, under the terms of the Succession Event, Successor Reference Entity A succeeds to certain Relevant Obligations and other debt obligations totaling \$40 million (40% of the original Reference Entity's outstanding debt obligations), Successor

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<sup>11</sup> If no Successor Reference Entity satisfies the "at least 25%" requirement and the original Reference Entity survives, then no Succession Event will be deemed to have occurred and the CDO contract will not be adjusted.

Reference Entity B succeeds to certain Relevant Obligations and other debt obligations totaling \$30 million (30%), and Successor Reference Entity C succeeds to all other Relevant Obligations and other debt obligations totaling \$30 million (30%). A CDO contract overlying Relevant Obligations on the original Reference Entity would be adjusted and replaced with three new CDOs, one each for Successor Reference Entities A, B and C, and each having an equal share value equivalent to 33.333%, the “applicable share,” of the original CDO contract (e.g., 33.333% of \$100,000 or \$33,333, which is equal to an exercise settlement value of \$100 multiplied by the revised contract multiplier of 333.33).

- Assume a Succession Event is confirmed by the Exchange in a Reference Entity with \$100 million outstanding in debt obligations and, under the terms of the Succession Event, Successor Reference Entity A succeeds to certain Relevant Obligations and other debt obligations totaling \$45 million (45% of the original Reference Entity’s outstanding debt obligations), Successor Reference Entity B succeeds to certain Relevant Obligations and other debt obligations totaling \$40 million (40%), and Successor Reference Entity C succeeds to all other Relevant Obligations and other debt obligations totaling \$15 million (15%). A CDO contract overlying Relevant Obligations on the original Reference Entity would be adjusted and replaced with two new CDOs, one each for Successor Reference Entities A and B, and each having



an equal share value equivalent to 50% of the original CDO contract (e.g., 50% of \$100,000 or \$50,000, which is equal to an exercise settlement value of \$100 multiplied by the revised contract multiplier of 500). Successor Reference Entity C's applicable share would be 0.

- Assume a Succession Event is confirmed by the Exchange in a Reference Entity with \$100 million outstanding in debt obligations and, under the terms of the Succession Event, Successor Reference Entities A and B each succeed to certain Relevant Obligations and other debt obligations totaling \$23 million each (23% of the original Reference Entity's outstanding debt obligations) and Successor Reference Entities C, D and E each succeed to certain Relevant Obligations and other debt obligations totaling \$18 million each (18%). A CDO contract overlying Relevant Obligations on the original Reference Entity would be adjusted and replaced with two new CDOs, one each for Successor Reference Entities A and B, and each having an equal share value equivalent to 50% of the original CDO contract (e.g., 50% of \$100,000 or \$50,000, which is equal to an exercise settlement value of \$100 multiplied by the revised contract multiplier of 500). Successor Reference Entities C, D and E's applicable shares would be 0.

As indicated above, the Exchange is proposing to codify these parameters for determining the applicable share of each Successor Reference Entity based on feedback we have received thus far from potential CDO investors. The Exchange believes that setting

forth these parameters would clarify how the Exchange intends to administer the Succession Event confirmation process, thereby affording investors with additional clarity and certainty regarding the impact of a Succession Event on an outstanding CDO contract. The Exchange also understands that these parameters would be substantially similar to and generally consistent with the practice in the over-the-counter market.

Finally, the Exchange is also proposing a non-substantive change to Rule 29.4. Specifically, the Exchange is substituting the phrase “the adjusted cash settlement amount(s) and the adjusted contract multiplier(s)” for “adjusted unit of trading and the adjusted exercise price” in paragraph (c) to be consistent with the use and meaning of those terms elsewhere in the rule text.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act<sup>12</sup> 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.<sup>13</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>14</sup> 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. As indicated above, the Exchange believes that setting forth the “applicable share” parameters would clarify how the Exchange intends to administer the

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<sup>12</sup> 15 U.S.C. 78s(b)(1).

<sup>13</sup> 15 U.S.C. 78f(b).

<sup>14</sup> 15 U.S.C. 78f(b)(5).

Succession Event confirmation process, thereby affording investors with additional clarity and certainty regarding the impact of a Succession Event on an outstanding CDO contract.

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 under Section 19(b)(3)(A)(i) of the Act,<sup>15</sup> and Rule 19b-4(f)(1) thereunder,<sup>16</sup> 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:

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<sup>15</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>16</sup> 17 CFR 240.19b-4(f)(1).

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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2007-81 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-2007-81. 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-2007-81 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.<sup>17</sup>

Nancy M. Morris  
Secretary

Dated: \_\_\_\_\_

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<sup>17</sup> 17 CFR 200.30-3(a)(12).