

## OMB APPROVAL

OMB Number: 3235-0045  
Expires: June 30, 2007  
Estimated average burden  
hours per response.....38

Page 1 of 13

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

File No. SR - 2007 - 98

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"/>
			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 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).

Expansion of Penny Pilot Program

**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 EFS 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 amend CBOE Rules relating to an expansion of the Penny Pilot Program. The text of the proposed rule change is provided below:

(b) Inapplicable

(c) Inapplicable

\* \* \* \* \*

(Additions are underlined; deletions are [bracketed])

Chicago Board Options Exchange, Incorporated  
Rules

\* \* \* \* \*

Rule 6.42 – Minimum Increments for Bids and Offers

Rule 6.42. The Board of Directors may establish minimum increments for options traded on the Exchange. When the Board of Directors determines to change the minimum increments, the Exchange will designate such change as a stated policy, practice, or interpretation with respect to the administration of Rule 6.42 within the meaning of subparagraph (3)(A) of subsection 19(b) of the Exchange Act and will file a rule change for effectiveness upon filing with the Commission. Until such time as the Board of Directors makes a change to the minimum increments, the following minimum increments shall apply to options traded on the Exchange:

(1) No change.

(2) No change.

(3) The decimal increments for bids and offers for all series of the option classes participating in the Penny Pilot Program [commencing on January 26, 2007, will be announced to the membership via Regulatory Circular and published by the Exchange on its website] are: \$0.01 for all option series quoted below \$3 (including LEAPS), and \$0.05 for all option series \$3 and above (including LEAPS). For QQQQs, the minimum increment is \$0.01 for all option series.

(4) No change.

**... Interpretations and Policies:**

**.01 – .02** No change.

**.03** For so long as SPDR options (SPY) and options on Diamonds (DIA) participate in the Penny Pilot Program, the minimum increments for Mini-SPX Index Options (XSP) and options on the Dow Jones Industrial Average (DJX), respectively, are \$0.01 for all option series quoted below \$3 (including LEAPS), and \$0.05 for all option series \$3 and above (including LEAPS).

\* \* \* \* \*

Item 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Exchange's Office of the Chairman pursuant to delegated authority on August 13, 2007.

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

CBOE proposes to amend its rules in connection with an expansion of the industry-wide Penny Pilot Program, which commenced on January 26, 2007. CBOE believes expanding the Penny Pilot Program as proposed in this rule filing will allow further analysis over a longer period of time as to the impact of quoting and trading in these reduced increments on market participants, transparency, liquidity, market structure, and quote traffic. Currently, thirteen option classes participate in the Penny Pilot Program.<sup>1</sup> CBOE intends to expand the Penny Pilot Program in two phases. Phase I of the expansion would begin on September 28, 2007, last for six months, and add the following twenty-two option classes to the Pilot Program.<sup>2</sup>

SPDR S&P 500 (SPY/SPY)	NYSE Euronext (NYX/NYX)
Apple Inc. (AAPL/AAQ)	Cisco Systems (CSCO/CYQ)
Altria Group, Inc. (MO/MO)	Financial Select Sector SPDR (XLF/XLF)
Dendreon Corp. (DNDN/UKO)	AT&T, Inc. (T/T)
Amgen Inc. (AMGN/AMQ)	Citigroup, Inc. (C/C)
Yahoo! Inc. (YHOO/YHQ)	Amazon.com Inc. (AMZN/ZQN)
Qualcomm Inc. (QCOM/QAQ)	Motorola Inc. (MOT/MOT)
General Motors (GM/GM)	Research in Motion Ltd. (RIMM/RUL)
Energy Select Sector SPDR (XLE/XLE)	Freeport-McMoRan Copper & Gold, Inc. (FCX/DPJ)
Diamonds Trust (DIA/DIA)	ConocoPhillips (COP/COP)
Oil Services HLDRS (OIH/OIH)	Bristol-Myers Squibb Co. (BMY/BMY)

These twenty-two option classes are among the most actively traded multiply-listed option classes based on national average daily volume, and together with the existing thirteen Pilot classes, represent approximately 35% of the total industry volume.

Phase II of the expansion would begin on March 28, 2008 and last for one year until March 27, 2009. It is currently anticipated that an additional twenty-eight option classes would be added to the Penny Pilot on March 28, 2008, bringing the total number of classes in the Pilot Program to 63. These twenty-eight new classes would be among the most active, multiply-listed option classes. CBOE intends to submit a proposed rule change pursuant to Section (b)(3)(A) of the Exchange Act announcing the names of these twenty-eight option classes prior to the beginning of Phase II.

<sup>1</sup> CBOE recently extended the Penny Pilot Program in the thirteen classes until September 27, 2007. (See SR-CBOE-2007-86.)

<sup>2</sup> CBOE also intends to issue a Regulatory Circular, which will be published on its website, identifying these twenty-two option classes.

The minimum increments for all classes in the Penny Pilot, except for the QQQQs, would continue to be \$0.01 for all option series below \$3 (including LEAPS), and \$0.05 for all option series \$3 and above (including LEAPS). For QQQQs, the minimum increment would remain \$0.01 for all option series. In connection with the expansion of the Penny Pilot Program, CBOE proposes to amend Rule 6.42(3) to specify in the rule text the minimum increments for the Pilot classes.

Additionally, because SPDR options (SPY) and options on Diamonds (DIA) will participate in the Penny Pilot Program beginning on September 28, 2007, CBOE proposes to quote and trade two index option classes -- Mini-SPX Index Options (XSP) and options on the Dow Jones Industrial Average (DJX), respectively, in the same minimum increments as SPY options and DIA options (*i.e.*, \$0.01 for all option series below \$3, and \$0.05 for all option series \$3 and above). SPY options are options on the SPDR exchange-traded fund (ETF) which is designed to track the performance of the S&P 500<sup>®</sup> Index. XSP options are options based on the S&P 500<sup>®</sup> Index. DIA options are options on an ETF that is designed to track the performance of the Dow Jones Industrial Average. DJX options are options based on the Dow Jones Industrial Average. CBOE believes it is important that these products, DIA and DJX, and SPY and XSP, have the same minimum increments for consistency and competitive reasons. Proposed new Interpretation .03 to Rule 6.42 addresses the minimum increments for the XSP and DJX option classes when SPY and DIA, respectively, participate in the Penny Pilot Program.

CBOE intends to submit to the SEC reports analyzing the Penny Pilot Program for the following time periods:

- May 1, 2007 – September 27, 2007
- September 28, 2007 – January 31, 2008
- February 1, 2008 – July 31, 2008
- August 1, 2008 – January 31, 2009

CBOE anticipates that its reports will assess the impact of the changes to the minimum increments during the specific time period being analyzed, including, among other things, effects on (i) market participants and customers; (ii) market performance and quality, such as quoted spreads, effective spreads, and the displayed size in the Pilot classes; and (iii) OPRA, vendor and exchange capacity. CBOE's reports should be submitted within one month following the end of the period being analyzed.

#### (b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (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. Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5) Act<sup>3</sup> 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.

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<sup>3</sup> 15 U.S.C. 78f(b)(5).

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 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 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-2007-98)

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

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change Regarding Expansion of the Penny Pilot Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Exchange 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 (the "Exchange" or "CBOE") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

CBOE proposes to amend its rules relating to an expansion of the Penny Pilot Program. The text of the proposed rule change is available on the Exchange's Web site (<http://www.cboe.com>), at the Office of the Secretary, CBOE 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

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

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

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

CBOE proposes to amend its rules in connection with an expansion of the industry-wide Penny Pilot Program, which commenced on January 26, 2007. CBOE believes expanding the Penny Pilot Program as proposed in this rule filing will allow further analysis over a longer period of time as to the impact of quoting and trading in these reduced increments on market participants, transparency, liquidity, market structure, and quote traffic. Currently, thirteen option classes participate in the Penny Pilot Program.<sup>3</sup> CBOE intends to expand the Penny Pilot Program in two phases. Phase I of the expansion would begin on September 28, 2007, last for six months, and add the following twenty-two option classes to the Pilot Program.<sup>4</sup>

SPDR S&P 500 (SPY/SPY)	NYSE Euronext (NYX/NYX)
Apple Inc. (AAPL/AAQ)	Cisco Systems (CSCO/CYQ)
Altria Group, Inc. (MO/MO)	Financial Select Sector SPDR (XLF/XLF)
Dendreon Corp. (DNDN/UKO)	AT&T, Inc. (T/T)
Amgen Inc. (AMGN/AMQ)	Citigroup, Inc. (C/C)
Yahoo! Inc. (YHOO/YHQ)	Amazon.com Inc. (AMZN/ZQN)

<sup>3</sup> CBOE recently extended the Penny Pilot Program in the thirteen classes until September 27, 2007. (See SR-CBOE-2007-86.)

<sup>4</sup> CBOE also intends to issue a Regulatory Circular, which will be published on its website, identifying these twenty-two option classes.



Qualcomm Inc. (QCOM/QAQ)	Motorola Inc. (MOT/MOT)
General Motors (GM/GM)	Research in Motion Ltd. (RIMM/RUL)
Energy Select Sector SPDR (XLE/XLE)	Freeport-McMoRan Copper & Gold, Inc. (FCX/DPJ)
Diamonds Trust (DIA/DIA)	ConocoPhillips (COP/COP)
Oil Services HLDRS (OIH/OIH)	Bristol-Myers Squibb Co. (BMY/BMY)

These twenty-two option classes are among the most actively traded multiply-listed option classes based on national average daily volume, and together with the existing thirteen Pilot classes, represent approximately 35% of the total industry volume.

Phase II of the expansion would begin on March 28, 2008 and last for one year until March 27, 2009. It is currently anticipated that an additional twenty-eight option classes would be added to the Penny Pilot on March 28, 2008, bringing the total number of classes in the Pilot Program to 63. These twenty-eight new classes would be among the most active, multiply-listed option classes. CBOE intends to submit a proposed rule change pursuant to Section (b)(3)(A) of the Exchange Act announcing the names of these twenty-eight option classes prior to the beginning of Phase II.

The minimum increments for all classes in the Penny Pilot, except for the QQQQs, would continue to be \$0.01 for all option series below \$3 (including LEAPS), and \$0.05 for all option series \$3 and above (including LEAPS). For QQQQs, the minimum increment would remain \$0.01 for all option series. In connection with the expansion of the Penny Pilot Program, CBOE proposes to amend Rule 6.42(3) to specify in the rule text the minimum increments for the Pilot classes.

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CBOE anticipates that its reports will assess the impact of the changes to the minimum increments during the specific time period being analyzed, including, among other things, effects on (i) market participants and customers; (ii) market performance and quality,

such as quoted spreads, effective spreads, and the displayed size in the Pilot classes; and (iii) OPRA, vendor and exchange capacity. CBOE's reports should be submitted within one month following the end of the period being analyzed.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act<sup>5</sup> in general and furthers the objectives of Section 6(b)(5) of the Act<sup>6</sup> 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.

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

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

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

No written comments were solicited or received with respect to the proposed rule change.

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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds 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

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

<sup>6</sup> 15 U.S.C. 78f(b)(5).

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

#### IV. Solicitation of Comments

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

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);  
or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2007-98 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-2007-98. 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-2007-98 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>7</sup>

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

Nancy M. Morris  
Secretary

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<sup>7</sup> 17 CFR 200.30-3(a)(12).