

## OMB APPROVAL

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

File No. SR - 2007 - 104

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"/>
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Not to exceed \_\_\_\_\_

Rule:

<input type="checkbox"/> Rule 19b-1	<input type="checkbox"/> Rule 19b-2
<input type="checkbox"/> Rule 19b-3	<input type="checkbox"/> Rule 19b-4
<input type="checkbox"/> Rule 19b-5	<input type="checkbox"/> Rule 19b-6

**Description**

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

Proposal to list and trade Range 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		
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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 09/06/2007

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 EFFT website.

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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

☐

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**

☐ ☐ ☐

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

Item 1. Text of the Proposed Rule Change

Chicago Board Options Exchange, Incorporated (“CBOE” or “Exchange”) proposes to amend its rules to provide for the listing and trading of Range Options that may overlie any index that is eligible for options trading on the Exchange. Range Options are European-style, cash-settled options that have a payout if the settlement value of the underlying index falls within the specified Range Length at expiration.<sup>1</sup> The text of the proposed rule change is provided below with additions underlined.<sup>2</sup>

## Chicago Board Options Exchange, Incorporated

## Rules

\* \* \* \* \*

## Rule 6.1 – Days and Hours of Business

RULE 6.1. No change

. . . Interpretations and Policies:

.01 No change.

.02 The hours of trading for certain securities are set forth in the Rules listed below:

Corporate Debt Security Options – Rule 28.9.

Credit Default Options – Rule 20.11.

Government Securities Options – Rule 21.10, Interpretation and Policy .01.

Index Options – Rule 24.6

Range Options – Rule 20.2

Stocks, Warrants and Other Securities – Rule 30.4

\* \* \* \* \*

## Rule 12.3 – Margin Requirements

RULE 12.3. (a) – (l) No change.

(m) Reserved.

<sup>1</sup> The term “Range Length” is defined in proposed Rule 20.1(c).

<sup>2</sup> The introduction to proposed Chapter XX and proposed Rule 20.15 assume that unrelated changes proposed in a separate pending rule filing are effective. See Securities Exchange Act Release No. 56311 (August 23, 2007), 72 FR 50133 (August 30, 2007) (noticing SR-CBOE-2006-99, which is a proposal to adopt rules related to FLEX Hybrid Trading System).

(n) Range Options.

(1) Except as provided below, no Range Option carried for a customer shall be considered of any value for purposes of computing the margin requirement in the account of such customer.

(2) Customer accounts having long positions in Range Options shall initially deposit a margin amount equal to at least 100% of the purchase price of such Range Option.

(3) Except as provided below, the minimum margin amount on any Range Option carried "short" in a customer's account shall be the difference between the Maximum Range Exercise Value times the contract multiplier and the proceeds (premium) received from the sale of the Range Option.

(4) Except as provided below, each Range Option carried "short" in a customer's account shall be margined separately.

(6) When a Range Option is carried "short" against an existing "long" position in the same Range Option or the writer's obligation is secured by a "specific deposit" or "escrow deposit" meeting the entire obligation of the Maximum Range Exercise Value times the contract multiplier under the Range Option, such position is deemed "covered" and therefore, no margin is required on the Range Option.

...Interpretations and Policies.

.01 – .19 No change.

\* \* \* \* \*

Chapter XX – Range Option Contracts

Introduction

The rules in this Chapter are applicable only to Range Options. Trading of Range Options shall also be subject to the rules in Chapters I through XIX, XXIV, XXIVA, and XXIVB, in some cases supplemented by the rules in this Chapter, except for rules that have been replaced by rules in this Chapter and except where context otherwise requires.

Rule 20.1 Definitions

RULE 20.1. The following terms as used in this Chapter shall, unless the context otherwise indicates, have the meanings herein specified.

Range Option

(a) The term "Range Option" means a European-style, cash settled option contract that pays an exercise settlement amount if the settlement value of the underlying index at expiration falls within the specified Range Length.

Settlement Value

(b) The term "settlement value" means the underlying index value at expiration of the Range Option.

Range Length

(c) The term "Range Length" means the entire length of the range of values of the underlying index for which the option pays a positive amount if the settlement value of the underlying index falls within the specific Range Length at expiration. The Exchange sets the Range Length at listing.

Range Interval

(d) The term “Range Interval” means an interval amount that determines the range increments of both the Low Range and the High Range. The minimum Range Interval amount is 5 index points. The Exchange sets the Range Interval at listing.

Low Range and Low Range Exercise Value

(e) The term “Low Range” means a segment of values along the Range Length (as determined by the Range Interval) that immediately precedes the Middle Range. For a Range Option, if the settlement value of the underlying index at expiration falls within the Low Range, the “Low Range Exercise Value” will be a variable amount that increases along the Low Range as the settlement value of the underlying index at expiration increases and is capped at the Maximum Range Exercise Value.

High Range and High Range Exercise Value

(f) The term “High Range” means a segment of values along the Range Length (as determined by the Range Interval) that immediately succeeds the Middle Range. For a Range Option, if the settlement value of the underlying index at expiration falls within the High Range, the “High Range Exercise Value” will be a variable amount that decreases along the High Range as the settlement value of the underlying index increases and is capped at the Maximum Range Exercise Value.

Middle Range and Maximum Range Exercise Value

(g) The term “Middle Range” means a segment of values along the Range Length that lies between the Low Range and the High Range and its length is equal to the Range Length minus twice the Range Interval. For a Range Option, if the settlement value of the underlying index at expiration falls within the Middle Range, the “Maximum Range Exercise Value” will be a fixed amount that does not vary based on where in the Middle Range the settlement value of the underlying index falls and represents the maximum payout amount for Range Options. The Exchange sets the Maximum Range Exercise Value at listing.

Contract Multiplier

(h) The term “contract multiplier” as used in reference to Range Options means the multiple applied to the exercise value to arrive at the exercise settlement amount per contract. The contract multiplier is established on a class-by-class basis and shall be at least 1 and is expressed in a dollar amount.

Exercise Settlement Amount

(i) The term “exercise settlement amount” as used in reference to a Range Option means the amount of cash that a holder will receive and a writer will be obligated to pay upon automatic exercise of the contract. The exercise settlement amount is equal to the exercise value times the contract multiplier.

Rule 20.2 – Days and Hours of Business

RULE 20.2. Transactions in Range Options may be effected during normal Exchange option trading hours for other options on the same index.

Rule 20.3 – Designation of Range Option Contracts

RULE 20.3. (a) The Exchange may from time to time approve for listing and trading on the Exchange Range Option contracts that overlie any index that is eligible for options trading on the Exchange.

(b) The Exchange may add new series of options of the same class as provide for by the rules governing options on the same underlying index. Additional series of Range Options may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market or to meet customer demand. The opening of a new series of Range Options on the Exchange will not affect any other series of options of the same class previously opened.

#### Rule 20.4 – Maintenance Listing Standards

RULE 20.4. The maintenance listing standards with respect to options on indexes set forth in Rule 24.2 and the Interpretations and Policies thereunder shall be applicable to Range Options on indexes.

#### Rule 20.5 – Limitation of Liability of Exchange and of Reporting Authority

RULE 20.5. (a) Rule 6.7 shall be applicable in respect of any class of Range Options.

(b) Rule 24.14 shall be applicable in respect of any reporting authority that is the source of values of any index underlying any class of Range Options.

#### Rule 20.6 Position Limits

RULE 20.6. (a) In determining compliance with Rules 4.11, 24.4, 24.4A, and 24.4B, cash-settled Range Option contracts shall have a position limit equal to those for options on the same underlying index.

(b) In determining compliance with the position limits set forth in paragraph (a), Range Options shall not be aggregated with option contracts on the same underlying index.

#### Rule 20.7 – Reports Related to Position Limits and Liquidation of Positions

RULE 20.7. Range Options shall be subject to the same reporting and other requirements triggered for options on the same underlying index. In computing reportable Range Options, Range Options shall not be aggregated with options on the same underlying index. In addition, Range Options of a given class shall not be aggregated with any other class of Range Options.

#### Rule 20.8 – Exercise Limits

RULE 20.8. Exercise limits for Range Options shall be the same as those for options on the same underlying index.

#### Rule 20.9 – Determination of the Settlement Value of the Underlying Index

RULE 20.9. Range Options that are “in-the-money,” or “out-of-the-money” are a function of whether the settlement value of the underlying index at expiration falls within or outside of the Range Length.

#### Rule 20.10 – Premium Bids and Offers; Minimum Increments

RULE 20.10. (a) All bids or offers made for Range Option contracts shall be deemed to be for one contract unless a specific number of option contracts is expressed in the bid or offer. A bid or offer for more than one option contract, which is not made all-or-none, shall be deemed to be for that amount or any lesser number of option contracts. An all-or-none bid or

offer shall be deemed to be made only for the amount stated.

(b) All bids or offers made for Range Option contracts shall be governed by the Rule 24.8.

Rule 20.11 – Automatic Exercise of Range Options

RULE 20.11. Range Options will be automatically exercised at expiration if the settlement value of the underlying index falls within the Range Length.

Rule 20.12 – FLEX Trading

RULE 20.12. Range Options shall be eligible for trading as Flexible Exchange Options as provided for in Chapter XXIVA and XXIVB. For purposes of Rules 24A.4 and 24B.4, the parties shall designate the Range Length, Range Interval and Maximum Range Exercise Value. Rules 24A.9 and 24B.9, regarding the minimum quote width, shall not apply to Range Options.

\* \* \* \* \*

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 August 29, 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 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 purpose of this proposed rule change is to enable the initial and continued listing and trading on the Exchange of Range Options that overlie any index eligible for options trading on the Exchange. Range Options are European-style options that have a positive payout if the settlement value of the underlying index falls within the specified Range Length at expiration. Range Options will be based on the same framework as existing options that are traded on the Exchange; however, the maximum payout amount will be capped (as

specified by the Exchange at listing) and the specific exercise settlement amount may vary based on where on the Range Length the settlement value of the underlying index value falls.

#### The Payout Structure of Range Options

The universe of possible payout amounts for Range Options resembles the shape of an isosceles trapezoid spread over a range of index values or the “Range Length.” The Range Length, or the bottom parallel (and longer) line of the trapezoid, defines the entire length of index values for which the option pays a positive amount if the settlement value of the underlying index falls within the specific Range Length. In other words, the Range Length equals the total span between two underlying index values, as set by the Exchange at listing, that is used to determine whether a Range option is in or out of the money at expiration.

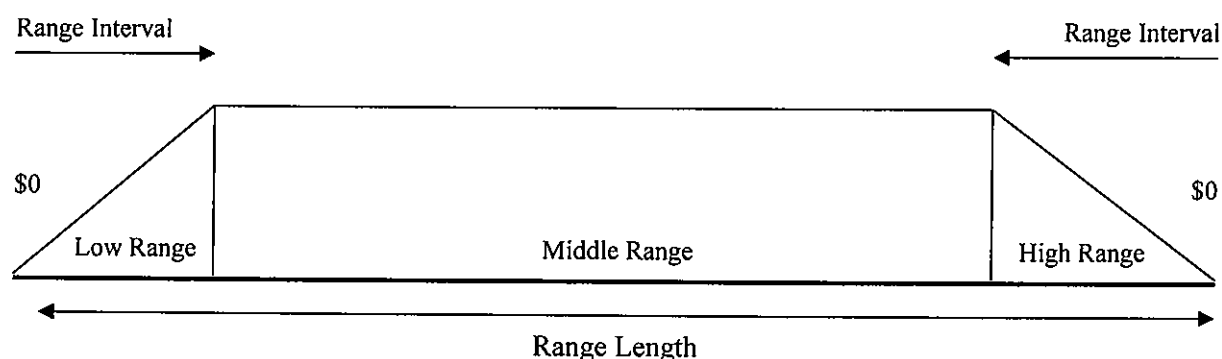
The Range Length is comprised of three segments that are defined by the “Range Interval,” which is a value that the Exchange will specify at listing and the minimum Range Interval will be at least 5 index points. Using the isosceles trapezoid diagram below, the “Range Interval,” defines each congruent triangle on the opposite side of the trapezoid, which have base angles of equal degrees and equal base lengths.

The first triangle at the start of the Range Length defines the “Low Range” for the Range Option and if the settlement value of the underlying index value falls in the Low Range (the “Low Range Exercise Value”), the option will pay an amount that increases as the index value increases within the Low Range. To determine the exercise settlement amount if the settlement value of the index falls within the Low Range, the Low Range Exercise Value will be multiplied by the contract multiplier, set by the Exchange at listing.

The second triangle at the end of the Range Length defines the “High Range” for the Range Option and if the settlement value of the underlying index falls in the High Range, the



option will pay an amount that decreases as the index value increases within the High Range (“High Range Exercise Value”). To determine the exercise settlement amount if the settlement value of index falls within the High Range, the High Range Exercise Value will be multiplied by the contract multiplier, set by the Exchange at listing. Lastly, the Low Range and High Range are segments of equal lengths at opposite ends on the Range Length and if the settlement value of the underlying index falls at the starting value of the Low Range, at the ending value of the High Range or outside of either the Low Range or the High Range, the option will pay \$0.



The third segment of the Range Option is defined as the “Middle Range,” and its length is equal to the Range Length minus twice the Range Interval, or as illustrated in the above diagram, its length is equal to the length of the top parallel (and shorter) line of the trapezoid. If the settlement value of the underlying index falls anywhere within the Middle Range at expiration, the payout is a fixed amount (set by the Exchange at listing) and does not vary depending on where in the Middle Range the index value falls. Also, if the index value falls in the Middle Range, this will be the highest amount that can be paid out for a Range Option and is defined as the “Maximum Range Exercise Value.” To determine the exercise settlement amount if the settlement value of the index falls anywhere within the Middle Range, the Maximum Range Exercise Value will be multiplied by the contract

multiplier, set by the Exchange at listing.

Unlike other options, Range Options will only be of a single type, and there will not be traditional calls and puts. Also, the “strike” price for Range Options will be the Range Length that, akin to a regular strike price, will be used to determine if the Range Option is in or out of the money. When applicable, the “strike price” for a Range Option (i.e., the Range Length) will be used to determine the degree that the option is in-the-money (capped at the Maximum Range Exercise Value) if the settlement value of the underlying index falls within either the High or Low Range of the Range Length.

#### Determination and Example of Exercise Values

The below examples and diagrams demonstrate the variations of payout amounts for Range Options. Assume the Exchange identifies the S&P 500 Index (“SPX”) as the underlying index and defines the Range Length as between 1340 and 1410. Also assume that the Exchange sets the Range Interval at 10 index points and the Maximum Range Exercise Value at 100 and the contract multiplier as \$100.

#### Payout if Closing Value of Underling Index Falls in Low or High Ranges

Example 1: If at expiration the underlying index value falls in either the Low Range or the High Range, the payout will be determined based on where the settlement value falls within the respective range. If the settlement value falls within the Low Range, the Low Range Exercise Value will equal a value that falls within a progressive upward slope that ends at the beginning of the Middle Range. For example, if the settlement value of the SPX is 1342, the exercise settlement amount would be \$100 ( $\$100 \times 1$ ) or if the settlement value of the SPX is 1347, the exercise settlement would be \$700 ( $\$100 \times 7$ ). If at expiration, the settlement value of the SPX is 1340 or lower, the option would expire worthless.

**Example 1: Low Range Exercise Value**

1340 ◀-----			<b>Low Range</b>				-----▶ 1349		
Settlement Value of SPX									
1340	1341	1342	1343	1344	1345	1346	1347	1348	1349
Low Range Exercise Value									
0	1	2	3	4	5	6	7	8	9

Example 2: If the settlement value falls within the High Range, the High Range Exercise Value will equal a value that falls within a regressive downward slope that starts at the end of the Middle Range. For example, if the settlement value of the SPX is 1402, the exercise settlement amount would be \$800 ( $\$100 \times 8$ ) or if the settlement value of the SPX is 1406, the exercise settlement would be \$400 ( $\$100 \times 4$ ). If at expiration, the settlement value of the SPX is 1410 or higher, the option would expire worthless.

**Example 2: High Range Exercise Value**

1401 ◀-----			High Range				-----▶ 1410		
Settlement Value of SPX									
1401	1402	1403	1404	1405	1406	1407	1408	1409	1410
High Range Exercise Value									
9	8	7	6	5	4	3	2	1	0

Maximum, Fixed Payout if Underlying Index Value Falls in Middle Range

Example 3: If at expiration, the settlement value of the SPX is 1351, the option holder would be entitled to receive and the writer would be obligated to pay \$1,000 ( $\$100 \times 10$ ) and if the settlement value of the SPX is 1375, the exercise settlement amount would also be \$1,000. This is because if the settlement value of the SPX falls anywhere within the Middle Range at expiration, the payout is a fixed amount (Maximum Range Exercise Value times the contract multiplier) and does not vary depending on where in the Middle Range the SPX value falls.

**Example 3: Underlying index value falls within Middle Range**

1340 ◀-----	<b>Range Length</b>	-----▶ 1410
<b>Low Range</b>	<b>Middle Range</b> Maximum Range Exercise Value = \$100	<b>High Range</b>
1340                      1349	1350                      1400	1401                      1410
	SPX = 1351 SPX = 1375	

**Benefits of Range Options**

The Exchange believes that the introduction of Range Options will provide advantages to the investing public that are not provided for by other index options. First, the Exchange believes that Range Option offer investors a relatively low risk security where the risk reduction results from knowing the maximum risk exposure when the contract is written. While there may be variation in the amount of the exercise settlement amount, the maximum exercise settlement amount is set at listing and the maximum risk therefore is limited and known at listing. Second, the Range Option is structured similar to a two-sided European binary option that provides additional flexibility because the option pays a reduced amount if the underlying index settles outside the main range covered by the option.

**Proposed New Rules**

To accommodate the introduction of Range Options, the Exchange proposes to adopt new Chapter XX to its rules and to make amendments to existing Rules 6.1, Days and Hours of Business, and 12.3, Margin Requirements. An introductory paragraph to Chapter XX will explain that the proposed rules in the proposed Chapter are applicable only to Range Options. Trading in Range Options will also be subject to the rules in Chapter I through XIX, XXIV, XXIVA and XXIVB, in some cases supplemented by the proposed rules in the Chapter, except for existing rules that will be replaced by the proposed rules in the Chapter and except

where the context otherwise requires. As proposed, the majority of the rules governing index options will equally apply to Range Options. Those new proposed rules and those proposed amendments to existing rules pertaining to Range Options are described below.

(1) Definitions (Proposed Rule 20.1)

Proposed Chapter XX includes new definitions applicable to Range Options in Rule 20.1. In particular, the terms “Range Option,” “Settlement Value,” “Range Length,” “Range Interval,” “Low Range and Low Range Exercise Value,” “High Range and High Range Exercise Value,” “Middle Range and Maximum Range Exercise Value,” “Contract Multiplier,” and “Exercise Settlement Amount,” are proposed to be defined.

(2) Days and Hours of Business (Proposed Rule 20.2 and Amendment to Rule 6.1)

Proposed Rule 20.2 and an amendment to Rule 6.1, Days and Hours of Business Days and Hours of Business, provide that transactions in Range Options may be effected during normal Exchange option trading hours for other options on the same index.

(3) Designation of Range Option Contracts and Maintenance Listing Standards (Proposed Rules 20.3 and 20.4)

Proposed Rule 20.3 provides that the Exchange may from time to time approve for listing and trading on the Exchange Range Option contracts that overlie any index that is eligible for options trading on the Exchange. The Exchange may add new series of options of the same class as provide for by the rules governing options on the same underlying index. Additional series of Range Options may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market or to meet customer demand. The opening of a new series of Range Options on the Exchange will not affect any other series of options of the same class previously opened.

Proposed Rule 20.4 provides that the maintenance listing standards with respect to options on indexes set forth in Rule 24.2 and the Interpretations and Policies thereunder will be applicable to Range Options on indexes. Rule 24.2, Designation of the Index, sets forth initial and maintenance listing criteria for index options.

(4) Limitation of Liability of Exchange and of Reporting Authority (Proposed Rule 20.5)

Proposed Rule 20.5 provides that Rules 6.7, Exchange Liability, will be applicable in respect of any class of Range Options and that Rule 24.14, Disclaimers, will be applicable in respect of any reporting authority that is the source of values of any index underlying any class of Range Options.

(5) Position Limits, Reporting Relating to Position Limits and Liquidation of Positions and Exercise Limits (Proposed Rules 20.6 – 20.8)

Proposed Rule 20.6 provides that in determining compliance with Rules 4.11, Position Limits, 24.4, Position Limits for Broad-Based Index Options, 24.4A, Position Limits for Industry Index Options, and 24.4B, Position Limits for Options on Micro Narrow-Based Indexes as Defined Under Rule 24.2(d), cash-settled Range Options will have a position limit equal to those for options on the same underlying index. In determining compliance with the applicable position limits, Range Options will not be aggregated with option contracts on the same underlying index.

Proposed Rule 20.7 provides that Range Options will be subject to the same reporting and other requirements triggered for options on the same underlying index. In computing reportable Range Options, Range Options will not be aggregated with options on the same underlying index. In addition, Range Options of a given class will not be aggregated with any other class of Range Options.

Proposed Rule 20.8 provides that exercise limits for Range Options will be the same as those for options on the same underlying index.

(6) Determination of Settlement Value of the Underlying Index (Proposed Rule 20.9)

Proposed Rule 20.9 provides that Range Options that are “in-the-money,” or “out-of-the-money” are a function of the settlement value of the underlying index and whether at expiration the settlement values falls within or outside of the Range Length.

(7) Premium Bids and Offers; Minimum Increments (Proposed Rule 20.10)

Proposed Rule 20.10 provides that all bids or offers made for Range Option contracts will be deemed to be for one contract unless a specific number of option contracts is expressed in the bid or offer. A bid or offer for more than one option contract, which is not made all-or-none, will be deemed to be for that amount or any lesser number of option contracts. An all-or-none bid or offer will be deemed to be made only for the amount stated. Proposed Rule 20.10 also provides that all bids or offers made for Range Option contracts will be governed by the Rule 24.8, Meaning of Premium Bids and Offers, as that rule applies to index options.

(8) Automatic Exercise of Range Options (Proposed Rules 20.11)

Proposed Rule 20.11 provides that Range Options will be automatically exercised at expiration if the settlement value of the underlying index falls within the Range Length.

(9) FLEX Trading (Proposed Rule 20.12)

Proposed Rule 20.12 provides that Range Options will be eligible for trading as Flexible Exchange Options as provided for in Chapter XXIVA and XXIVB. For purposes of Rules 24A.4 and 24B.4, the parties will designate the Range Length, Range Interval and

Maximum Exercise Value. Rules 24A.9 and 24B.9, regarding the minimum quote width, will not apply to Range Options.

(10) Margin (Proposed Amendment to Rule 12.3)

The Exchange is proposing to amend Rule 12.3, Margin Requirements, to include requirements applicable to Range Options.<sup>3</sup> Under the proposed requirements, the initial margin for long positions in Range Options must be equal to at least 100% of the purchase price of the options (i.e., the premium). In connection with short positions in Range Options, the customer margin required will be the difference between the Maximum Range Exercise Value times the contract multiplier and the proceeds received (premium) received from the sale of the Range Options. A short position in a Range Option will be deemed covered if it is carried short against an existing long position in the same Range Option or the writer's obligation is secured by a specific deposit or escrow meeting the entire obligation of the Maximum Range Exercise Value times the contract multiplier. The Exchange believes that these proposed levels are appropriate because risk exposure is limited with Range Options and the proposed customer margin is equal to the maximum risk exposure.<sup>4</sup>

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<sup>3</sup> The Exchange is proposing the addition of new subparagraph (n) to Rule 12.3 for Range Options and is proposing to reserve subparagraph (m). The Exchange is seeking to reserve subparagraph (m) because the Exchange previously proposed to use that paragraph to codify margin requirements for a product that is the subject of a pending rule filing. See SR-CBOE-2006-105 (proposal to list and trade binary options on broad based indexes).

<sup>4</sup> In accordance with Rule 12.10, Margin Required is Minimum, the Exchange has the ability to determine at any time to impose higher margin requirements than those described above in respect of any Range Option position when it deems such higher margin requirements are appropriate.



(11) Options Disclosure Document

In order to accommodate the listing and trading of Range Options, it is expected that the OCC will amend their By-Laws and Rules to reflect the different structure of Range Options. In addition, it is expected that OCC will seek a revision to the Options Disclosure Document (“ODD”) to incorporate Range Options.

(12) Systems Capacity

The Exchange represents that it believes the Exchange and the Options Price Reporting Authority have the necessary systems capacity to handle the additional traffic associated with the listing and trading of Range Options as proposed herein. The Exchange does not anticipate that there will be any additional quote mitigation strategy necessary to accommodate the trading of Range Options.

(13) Surveillance Program

The Exchange represents that it will have in place adequate surveillance procedures to monitor trading in Range Options prior to listing and trading such options, thereby helping to ensure the maintenance of a fair and orderly market for trading in Range Options.

(b) Statutory Basis

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

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<sup>5</sup> 15 U.S.C. 78s(b)(1).

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

6(b)(5)<sup>7</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.

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>8</sup> 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.

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<sup>7</sup> 15 U.S.C. 78f(b)(5).

<sup>8</sup> 15 U.S.C. 78s(b)(2).

Item 9.        Exhibits

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

Exhibit 3.     Product Description.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-CBOE-2007-104)

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

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change to List for Trading Range Options on Indexes Eligible for Options Trading on the Exchange

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 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 to provide for the listing and trading of Range Options that may overlie any index that is eligible for options trading on the Exchange. Range Options are European-style, cash-settled options that have a payout if the settlement value of the underlying index falls within the specified Range Length at expiration.<sup>3</sup> The text of the 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.

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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> The term "Range Length" is defined in proposed Rule 20.1(c).

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 purpose of this proposed rule change is to enable the initial and continued listing and trading on the Exchange of Range Options that overlie any index eligible for options trading on the Exchange. Range Options are European-style options that have a positive payout if the settlement value of the underlying index falls within the specified Range Length at expiration. Range Options will be based on the same framework as existing options that are traded on the Exchange; however, the maximum payout amount will be capped (as specified by the Exchange at listing) and the specific exercise settlement amount may vary based on where on the Range Length the settlement value of the underlying index value falls.

The Payout Structure of Range Options

The universe of possible payout amounts for Range Options resembles the shape of an isosceles trapezoid spread over a range of index values or the "Range Length." The Range Length, or the bottom parallel (and longer) line of the trapezoid, defines the entire length of index values for which the option pays a positive amount if the settlement value of

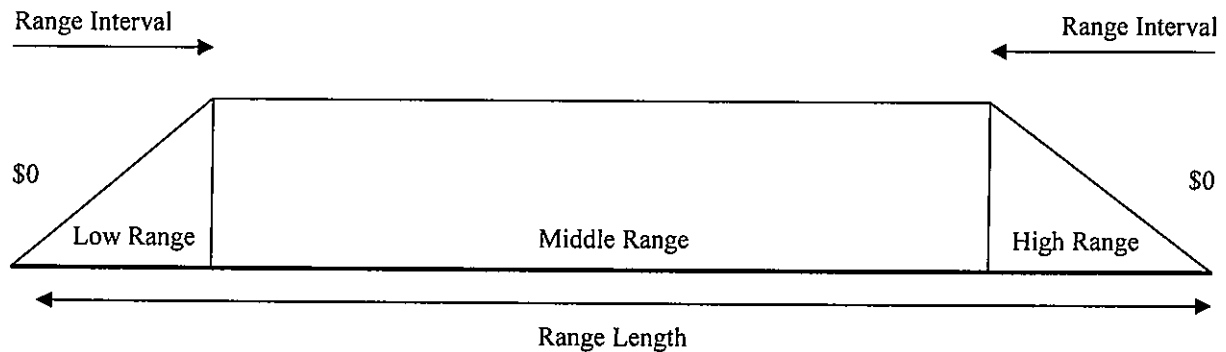
the underlying index falls within the specific Range Length. In other words, the Range Length equals the total span between two underlying index values, as set by the Exchange at listing, that is used to determine whether a Range option is in or out of the money at expiration.

The Range Length is comprised of three segments that are defined by the “Range Interval,” which is a value that the Exchange will specify at listing and the minimum Range Interval will be at least 5 index points. Using the isosceles trapezoid diagram below, the “Range Interval,” defines each congruent triangle on the opposite side of the trapezoid, which have base angles of equal degrees and equal base lengths.

The first triangle at the start of the Range Length defines the “Low Range” for the Range Option and if the settlement value of the underlying index value falls in the Low Range (the “Low Range Exercise Value”), the option will pay an amount that increases as the index value increases within the Low Range. To determine the exercise settlement amount if the settlement value of the index falls within the Low Range, the Low Range Exercise Value will be multiplied by the contract multiplier, set by the Exchange at listing.

The second triangle at the end of the Range Length defines the “High Range” for the Range Option and if the settlement value of the underlying index falls in the High Range, the option will pay an amount that decreases as the index value increases within the High Range (“High Range Exercise Value”). To determine the exercise settlement amount if the settlement value of index falls within the High Range, the High Range Exercise Value will be multiplied by the contract multiplier, set by the Exchange at listing. Lastly, the Low Range and High Range are segments of equal lengths at opposite ends on the Range Length and if

the settlement value of the underlying index falls at the starting value of the Low Range, at the ending value of the High Range or outside of either the Low Range or the High Range, the option will pay \$0.



The third segment of the Range Option is defined as the "Middle Range," and its length is equal to the Range Length minus twice the Range Interval, or as illustrated in the above diagram, its length is equal to the length of the top parallel (and shorter) line of the trapezoid. If the settlement value of the underlying index falls anywhere within the Middle Range at expiration, the payout is a fixed amount (set by the Exchange at listing) and does not vary depending on where in the Middle Range the index value falls. Also, if the index value falls in the Middle Range, this will be the highest amount that can be paid out for a Range Option and is defined as the "Maximum Range Exercise Value." To determine the exercise settlement amount if the settlement value of the index falls anywhere within the Middle Range, the Maximum Range Exercise Value will be multiplied by the contract multiplier, set by the Exchange at listing.

Unlike other options, Range Options will only be of a single type, and there will not be traditional calls and puts. Also, the "strike" price for Range Options will be the Range Length that, akin to a regular strike price, will be used to determine if the Range Option is in

or out of the money. When applicable, the “strike price” for a Range Option (i.e., the Range Length) will be used to determine the degree that the option is in-the-money (capped at the Maximum Range Exercise Value) if the settlement value of the underlying index falls within either the High or Low Range of the Range Length.

#### Determination and Example of Exercise Values

The below examples and diagrams demonstrate the variations of payout amounts for Range Options. Assume the Exchange identifies the S&P 500 Index (“SPX”) as the underlying index and defines the Range Length as between 1340 and 1410. Also assume that the Exchange sets the Range Interval at 10 index points and the Maximum Range Exercise Value at 100 and the contract multiplier as \$100.

#### Payout if Closing Value of Underling Index Falls in Low or High Ranges

Example 1: If at expiration the underlying index value falls in either the Low Range or the High Range, the payout will be determined based on where the settlement value falls within the respective range. If the settlement value falls within the Low Range, the Low Range Exercise Value will equal a value that falls within a progressive upward slope that ends at the beginning of the Middle Range. For example, if the settlement value of the SPX is 1342, the exercise settlement amount would be \$100 (\$100 x 1) or if the settlement value of the SPX is 1347, the exercise settlement would be \$700 (\$100 x 7). If at expiration, the settlement value of the SPX is 1340 or lower, the option would expire worthless.

#### **Example 1: Low Range Exercise Value**

1340 ◀-----			Low Range				-----▶ 1349		
Settlement Value of SPX									
1340	1341	1342	1343	1344	1345	1346	1347	1348	1349
Low Range Exercise Value									
0	1	2	3	4	5	6	7	8	9



**Example 2:** If the settlement value falls within the High Range, the High Range Exercise Value will equal a value that falls within a regressive downward slope that starts at the end of the Middle Range. For example, if the settlement value of the SPX is 1402, the exercise settlement amount would be \$800 ( $\$100 \times 8$ ) or if the settlement value of the SPX is 1406, the exercise settlement would be \$400 ( $\$100 \times 4$ ). If at expiration, the settlement value of the SPX is 1410 or higher, the option would expire worthless.

**Example 2: High Range Exercise Value**

1401 ◀-----			High Range				-----▶ 1410		
Settlement Value of SPX									
1401	1402	1403	1404	1405	1406	1407	1408	1409	1410
High Range Exercise Value									
9	8	7	6	5	4	3	2	1	0

**Maximum, Fixed Payout if Underlying Index Value Falls in Middle Range**

**Example 3:** If at expiration, the settlement value of the SPX is 1351, the option holder would be entitled to receive and the writer would be obligated to pay \$1,000 ( $\$100 \times 10$ ) and if the settlement value of the SPX is 1375, the exercise settlement amount would also be \$1,000. This is because if the settlement value of the SPX falls anywhere within the Middle Range at expiration, the payout is a fixed amount (Maximum Range Exercise Value times the contract multiplier) and does not vary depending on where in the Middle Range the SPX value falls.

**Example 3: Underlying index value falls within Middle Range**

1340 ◀-----		<b>Range Length</b>		-----▶ 1410	
<b>Low Range</b>		<b>Middle Range</b> Maximum Range Exercise Value = \$100		<b>High Range</b>	
1340	1349	1350	1400	1401	1410
		SPX = 1351 SPX = 1375			

### Benefits of Range Options

The Exchange believes that the introduction of Range Options will provide advantages to the investing public that are not provided for by other index options. First, the Exchange believes that Range Option offer investors a relatively low risk security where the risk reduction results from knowing the maximum risk exposure when the contract is written. While there may be variation in the amount of the exercise settlement amount, the maximum exercise settlement amount is set at listing and the maximum risk therefore is limited and known at listing. Second, the Range Option is structured similar to a two-sided European binary option that provides additional flexibility because the option pays a reduced amount if the underlying index settles outside the main range covered by the option.

### Proposed New Rules

To accommodate the introduction of Range Options, the Exchange proposes to adopt new Chapter XX to its rules and to make amendments to existing Rules 6.1, Days and Hours of Business, and 12.3, Margin Requirements. An introductory paragraph to Chapter XX will explain that the proposed rules in the proposed Chapter are applicable only to Range Options. Trading in Range Options will also be subject to the rules in Chapter I through XIX, XXIV, XXIVA and XXIVB, in some cases supplemented by the proposed rules in the Chapter, except for existing rules that will be replaced by the proposed rules in the Chapter and except where the context otherwise requires. As proposed, the majority of the rules governing index options will equally apply to Range Options. Those new proposed rules and those proposed amendments to existing rules pertaining to Range Options are described below.

(a) Definitions (Proposed Rule 20.1)

Proposed Chapter XX includes new definitions applicable to Range Options in Rule 20.1. In particular, the terms "Range Option," "Settlement Value," "Range Length," "Range Interval," "Low Range and Low Range Exercise Value," "High Range and High Range Exercise Value," "Middle Range and Maximum Range Exercise Value," "Contract Multiplier," and "Exercise Settlement Amount," are proposed to be defined.

(b) Days and Hours of Business (Proposed Rule 20.2 and Amendment to Rule 6.1)

Proposed Rule 20.2 and an amendment to Rule 6.1, Days and Hours of Business Days and Hours of Business, provide that transactions in Range Options may be effected during normal Exchange option trading hours for other options on the same index.

(c) Designation of Range Option Contracts and Maintenance Listing Standards (Proposed Rules 20.3 and 20.4)

Proposed Rule 20.3 provides that the Exchange may from time to time approve for listing and trading on the Exchange Range Option contracts that overlie any index that is eligible for options trading on the Exchange. The Exchange may add new series of options of the same class as provide for by the rules governing options on the same underlying index. Additional series of Range Options may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market or to meet customer demand. The opening of a new series of Range Options on the Exchange will not affect any other series of options of the same class previously opened.

Proposed Rule 20.4 provides that the maintenance listing standards with respect to options on indexes set forth in Rule 24.2 and the Interpretations and Policies thereunder will

be applicable to Range Options on indexes. Rule 24.2, Designation of the Index, sets forth initial and maintenance listing criteria for index options.

(d) Limitation of Liability of Exchange and of Reporting Authority (Proposed Rule 20.5)

Proposed Rule 20.5 provides that Rules 6.7, Exchange Liability, will be applicable in respect of any class of Range Options and that Rule 24.14, Disclaimers, will be applicable in respect of any reporting authority that is the source of values of any index underlying any class of Range Options.

(e) Position Limits, Reporting Relating to Position Limits and Liquidation of Positions and Exercise Limits (Proposed Rules 20.6 – 20.8)

Proposed Rule 20.6 provides that in determining compliance with Rules 4.11, Position Limits, 24.4, Position Limits for Broad-Based Index Options, 24.4A, Position Limits for Industry Index Options, and 24.4B, Position Limits for Options on Micro Narrow-Based Indexes as Defined Under Rule 24.2(d), cash-settled Range Options will have a position limit equal to those for options on the same underlying index. In determining compliance with the applicable position limits, Range Options will not be aggregated with option contracts on the same underlying index.

Proposed Rule 20.7 provides that Range Options will be subject to the same reporting and other requirements triggered for options on the same underlying index. In computing reportable Range Options, Range Options will not be aggregated with options on the same underlying index. In addition, Range Options of a given class will not be aggregated with any other class of Range Options.

Proposed Rule 20.8 provides that exercise limits for Range Options will be the same as

those for options on the same underlying index.

(f) Determination of Settlement Value of the Underlying Index (Proposed Rule 20.9)

Proposed Rule 20.9 provides that Range Options that are “in-the-money,” or “out-of-the-money” are a function of the settlement value of the underlying index and whether at expiration the settlement values falls within or outside of the Range Length.

(g) Premium Bids and Offers; Minimum Increments (Proposed Rule 20.10)

Proposed Rule 20.10 provides that all bids or offers made for Range Option contracts will be deemed to be for one contract unless a specific number of option contracts is expressed in the bid or offer. A bid or offer for more than one option contract, which is not made all-or-none, will be deemed to be for that amount or any lesser number of option contracts. An all-or-none bid or offer will be deemed to be made only for the amount stated. Proposed Rule 20.10 also provides that all bids or offers made for Range Option contracts will be governed by the Rule 24.8, Meaning of Premium Bids and Offers, as that rule applies to index options.

(h) Automatic Exercise of Range Options (Proposed Rules 20.11)

Proposed Rule 20.11 provides that Range Options will be automatically exercised at expiration if the settlement value of the underlying index falls within the Range Length.

(i) FLEX Trading (Proposed Rule 20.12)

Proposed Rule 20.12 provides that Range Options will be eligible for trading as Flexible Exchange Options as provided for in Chapter XXIVA and XXIVB. For purposes of Rules 24A.4 and 24B.4, the parties will designate the Range Length, Range Interval and

Maximum Exercise Value. Rules 24A.9 and 24B.9, regarding the minimum quote width, will not apply to Range Options.

(j) Margin (Proposed Amendment to Rule 12.3)

The Exchange is proposing to amend Rule 12.3, Margin Requirements, to include requirements applicable to Range Options.<sup>4</sup> Under the proposed requirements, the initial margin for long positions in Range Options must be equal to at least 100% of the purchase price of the options (i.e., the premium). In connection with short positions in Range Options, the customer margin required will be the difference between the Maximum Range Exercise Value times the contract multiplier and the proceeds received (premium) received from the sale of the Range Options. A short position in a Range Option will be deemed covered if it is carried short against an existing long position in the same Range Option or the writer's obligation is secured by a specific deposit or escrow meeting the entire obligation of the Maximum Range Exercise Value times the contract multiplier. The Exchange believes that these proposed levels are appropriate because risk exposure is limited with Range Options and the proposed customer margin is equal to the maximum risk exposure.<sup>5</sup>

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<sup>4</sup> The Exchange is proposing the addition of new subparagraph (n) to Rule 12.3 for Range Options and is proposing to reserve subparagraph (m). The Exchange is seeking to reserve subparagraph (m) because the Exchange previously proposed to use that paragraph to codify margin requirements for a product that is the subject of a pending rule filing. See SR-CBOE-2006-105 (proposal to list and trade binary options on broad based indexes).

<sup>5</sup> In accordance with Rule 12.10, Margin Required is Minimum, the Exchange has the ability to determine at any time to impose higher margin requirements than those described above in respect of any Range Option position when it deems such higher margin requirements are appropriate.

(k) Options Disclosure Document

In order to accommodate the listing and trading of Range Options, it is expected that the OCC will amend their By-Laws and Rules to reflect the different structure of Range Options. In addition, it is expected that OCC will seek a revision to the Options Disclosure Document (“ODD”) to incorporate Range Options.

(l) Systems Capacity

The Exchange represents that it believes the Exchange and the Options Price Reporting Authority have the necessary systems capacity to handle the additional traffic associated with the listing and trading of Range Options as proposed herein. The Exchange does not anticipate that there will be any additional quote mitigation strategy necessary to accommodate the trading of Range Options.

(m) Surveillance Program

The Exchange represents that it will have in place adequate surveillance procedures to monitor trading in Range Options prior to listing and trading such options, thereby helping to ensure the maintenance of a fair and orderly market for trading in Range Options.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act<sup>6</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>7</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>8</sup> requirements that the rules of

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<sup>6</sup> 15 U.S.C. 78s(b)(1).

<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest.

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

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

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

The Exchange neither solicited nor received comments on the proposal.

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

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:



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-2007-104 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-2007-104. 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 Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. 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-2007-104 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>9</sup>

Secretary

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

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<sup>9</sup> 17 CFR 200.30-3(a)(12).

EXHIBIT 3**CONTRACT SPECIFICATIONS FOR CBOE RANGE OPTIONS**

<b>Symbols:</b>	TBD.
<b>Product Description:</b>	Range Options are European-style, cash-settled options that have a positive payout if the settlement value of the underlying index value falls within the specified Range Length at expiration. The maximum payout amount will be capped at listing and the specific exercise settlement amount may vary based on where on the Range Length the settlement value of the underlying index value falls.
<b>Underlying:</b>	The underlying for a Range Option may be any index eligible for options trading on the Exchange.
<b>Low and High Ranges:</b>	Low Range means a segment of values along the Range Length that immediately precedes the Middle Range and High Range means a segment of values along the Range Length that immediately succeeds the Middle Range. The Range Interval is used to define the Low Range and the High Range, which cover an equal segment of values at opposite ends of the Range Length.
<b>Middle Range:</b>	Middle Range means a segment of values along the Range Length that lies between the Low Range and the High Range and its length is equal to the Range Length minus twice the Range Interval.
<b>Multiplier:</b>	\$100.
<b>Range Length / Strike Price:</b>	The Range Length is defined as the entire length of the range of values of the underlying index for which the option pays a positive amount if the settlement value of the underlying index falls within the specified Range Length at expiration. The Exchange sets the Range Length at listing (e.g., 1340 to 1410) and uses the Range Length to determine whether the option is in or out of the money at expiration. When applicable, the Range Length is used to determine the degree that the option is in-the-money if the settlement value of the underlying index falls within either the Low Range or High Range.
<b>Range Interval / Strike Price Interval:</b>	The Range Interval is defined as an interval amount that determines the range increments of both the Low Range and the High Range. The minimum Range Interval amount is 5 index points and the Exchange sets the Range Interval at listing. The Range Interval will also serve as the strike price interval.

<b>Maximum Range Exercise Value:</b>	The Maximum Range Exercise Value will be a fixed amount set by the Exchange at listing and results in the highest amount that can be paid out for a Range Option. The Maximum Range Exercise Value is used to determine the exercise settlement amount if the settlement value of the underlying index falls anywhere within the Middle Range.
<b>Expiration Months:</b>	Expiration months for Range Options shall be equivalent to those for options on the same underlying index.
<b>Expiration Date:</b>	Saturday following the third Friday of the Expiration Month.
<b>Index Settlement Value:</b>	The index settlement value is calculated using the opening (first) reported sales price in the primary market of each component stock on the last business day (usually a Friday) before the expiration date. If a stock in the index does not open on the day on which the exercise settlement value is determined, the last reported sales price in the primary market will be used in calculating the index settlement value.
<b>Exercise Style:</b>	European – Range Options may be exercised only on the last business day prior to expiration. Writers are subject to assignment only at expiration. Automatic exercise occurs if the value of the underlying index falls within the Range Length.
<b>Last Trading Day:</b>	Trading will ordinarily cease on the business day (usually a Thursday) preceding the day on which the exercise-settlement value of the Range Option is determined (i.e., Low Range Exercise Value, High Range Exercise Value, Maximum Range Exercise Value).
<b>Determination of Exercise Settlement Amount:</b>	<p><u>Low Range Exercise Value:</u> to determine the exercise settlement amount if the settlement value of the index falls within the Low Range, the Low Range Exercise Value will be multiplied by the contract multiplier. If the settlement value of the index falls within the Low Range, the option will pay an amount that increases as the index value increases within the Low Range.</p> <p><u>High Range Exercise Value:</u> to determine the exercise settlement amount if the settlement value of the index falls within the High Range, the High Range Exercise Value will be multiplied by the contract multiplier. If the settlement value of the index falls within the High Range, the option will pay an amount that decreases as the index value increases within the High Range.</p> <p><u>Maximum Range Exercise Value:</u> to determine the exercise settlement amount if the settlement value of the index falls within the Middle Range, the Maximum Range Exercise Value will be multiplied by the contract multiplier. If the settlement value of the index falls within the Middle Range, the options will pay the same amount, which is also the highest amount that can be paid for a Range Option.</p>

<b>Position and Exercise Limits:</b>	Position and exercise limits for Range Options shall be equivalent to those for options on the same underlying index. Range Options are also subject to the same position reporting requirements triggered for options on the same underlying index. Range Options shall not be aggregated with options on the same underlying index and Range Options of a given class shall not be aggregated with any other class of Range Options.
<b>Margin:</b>	Customer margin for uncovered writers is the difference between the Maximum Range Exercise Value times the contract multiplier and the proceeds received from the sale of the Range Option. <u>See</u> Rule 12.3(n).
<b>Cusip Number:</b>	TBD.
<b>Trading Hours:</b>	8:30 a.m. to 3:15 p.m. Chicago time.
<b>Trading Platform:</b>	CBOE <i>direct</i> .