

## OMB APPROVAL

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Page 1 of 24

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

File No. SR - 2007 - 96  
Amendment No. 1

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

Initial <input type="checkbox"/>	Amendment <input checked="" 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 A Sent As Paper Document ☐ Exhibit B Sent As Paper Document ☐

**Description**

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

**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 Yeadon  
Title Senior Attorney  
E-mail yeadon@cboe.com  
Telephone (312) 786-7466 Fax (312) 786-7919

**Signature**

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

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

Date 01/17/2008

By Jennifer L. Yeadon

(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 Yeadon, yeadon@cboe.com

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EDFS 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) Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") proposes to amend Rule 5.5(e), Quarterly Option Series Pilot Program, to permit the Exchange to list strike prices for Quarterly Option Series ("QOS") in exchange traded fund ("ETF") options that fall within a percentage range (30%) above and below the price of the underlying ETF. Additionally, upon demonstrated customer interest, the Exchange would also be permitted to open additional strike prices of Quarterly Option Series in ETF options that are more than 30% above or below the current price of the ETF. Market-Makers trading for their own account would not be considered when determining customer interest under this provision. In addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each QOS in ETF options. Further, the proposal includes a delisting program to be undertaken by the Exchange in connection with QOS in ETFs.

Set forth below are proposed changes to the rule text, with additions represented by underscoring and deletions represented by [bracketing].

(b) Inapplicable

(c) Inapplicable

Chicago Board Options Exchange, Incorporated  
Rules

\* \* \* \* \*

Rule 5.5—Series of Option Contracts Open for Trading

RULE 5.5 (a)- (d) No change.

(e) Quarterly Option Series Pilot Program. Through a pilot program, the Exchange may list and trade options series that expire at the close of business on the last business day of a calendar quarter ("Quarterly Options Series"). The Exchange may list Quarterly

Options Series for up to five (5) currently listed options classes that are either index options or options on exchange traded funds ("ETF"). In addition, the Exchange may also list Quarterly Options Series on any options classes that are selected by other securities exchanges that employ a similar pilot program under their respective rules. The pilot program will expire on July 10, 2008.

(1) The Exchange may list series that expire at the end of the next consecutive four (4) calendar quarters, as well as the fourth quarter of the next calendar year. For example, if the Exchange is trading Quarterly Options Series in the month of May 2006, it may list series that expire at the end of the second, third, and fourth quarters of 2006, as well as the first and fourth quarters of 2007. Following the second quarter 2006 expiration, the Exchange could add series that expire at the end of the second quarter of 2007.

(2) Quarterly Options Series will be P.M. settled.

(3) Initial Series. The strike price for each Quarterly Options Series will be fixed at a price per share, with at least two strike prices above and two strike prices below the approximate value of the underlying security at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange shall list strike prices for a Quarterly Options Series that are within \$5 from the closing price of the underlying on the preceding day.

(4) Additional Series. Additional Quarterly Options Series of the same class may be open for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying security moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within [5] thirty percent (30%) above or below the closing price of the underlying ETF (or "Units" as defined in Rule 5.3.06) [from the closing price of the underlying] on the preceding day. The Exchange may also open additional strike prices of Quarterly Option Series in ETF options that are more than 30% above or below the current price of the underlying ETF provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. The opening of the new Quarterly Options Series shall not affect the series of options of the same class previously opened. In addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each Quarterly Options Series in ETF options.

(5) [(4)] The interval between strike prices on Quarterly Options Series shall be the same as the interval for strike prices for series in that same options class that expire in accordance with the normal monthly expiration cycle.

(6) (A) Delisting Policy. With respect to Quarterly Options Series in ETF options added pursuant to the above paragraphs, the Exchange will, on a monthly basis, review series that are outside a range of five (5) strikes above and five (5) strikes below

the current price of the underlying ETF, and delist series with no open interest in both the put and the call series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

(B) Notwithstanding the above referenced delisting policy, customer requests to add strikes and/or maintain strikes in Quarterly Options Series in ETF options in series eligible for delisting shall be granted.

(C) In connection with the above referenced delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting, and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed Quarterly Options Series in ETF options.

*...Interpretations and Policies*                      No change.

\*           \*           \*           \*           \*

Item 2.                      Procedures of the Self-Regulatory Organization

(a)           CBOE's Office of the Chairman, pursuant to delegated authority, approved the proposed rule change on August 7, 2007. No further action is required.

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

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

(a)           Purpose

Amendment 1 replaces the original filing in its entirety. The purpose for Amendment 1 is to revise the original proposal so that it applies to all Quarterly Option Series ("QOS") in Exchange Traded Fund ("ETF") options and to specify that in addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each QOS in ETF options. Amendment 1 also includes a delisting

program to be undertaken by the Exchange in connection with QOS in ETF options. Amendment 1 also makes conforming and other technical changes.

The purpose of this rule filing is to amend Rule 5.5(e), Quarterly Option Series Pilot Program, to permit the Exchange to list up to sixty (60) additional series per expiration month for each QOS in ETF options that fall within a percentage range (30%) above and below the price of the underlying ETF. Additionally, upon demonstrated customer interest, the Exchange would also be permitted to open additional strike prices of Quarterly Option Series in ETF options that are more than 30% above or below the current price of the underlying ETF, Market-Makers trading for their own account would not be considered when determining customer interest under this provision.

On July 7, 2006, the Exchange filed with the Securities and Exchange Commission ("Commission") a pilot program proposal to permit the listing and trading of QOS in options on indexes or options on Exchange Traded Funds ("ETFs") that satisfy the applicable listing criteria under CBOE rules.<sup>1</sup> QOS trade based on calendar quarters that end in March, June, September and December. The Exchange lists QOS that expire at the end of the next consecutive four calendar quarters, as well as the fourth quarter of the next calendar year. For example, if the Exchange were trading QOS in iShares Russell 2000 Index Fund ("IWM) in the month of April 2008, it would list series at the end of the second quarter 2008 (June), third quarter 2008 (September), fourth quarter 2008 (December) and first quarter 2009 (March) and fourth quarter 2009 (December).

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<sup>1</sup> See Securities Exchange Act Release No. 54123 (July 11, 2006), 71 FR 40558 (July 17, 2006) (SR-CBOE-20065-65) ("Pilot Program Approval order"). Under the pilot program, the Exchange may list QOS in up to five currently listed option classes that are either options on ETFs or indexes. The Exchange is also permitted to list QOS in any options class that is selected by other securities exchanges that employ a similar pilot program under their respective rules.

Currently, the Exchange list QOS in five ETF options: (1) Nasdaq-100 Index Tracking Stock ("QQQQ"); (2) IWM, (3) DIAMONDS Trust, Series 1 ("DIA"), Standard and Poor's Depositary Receipts/SPDRs ("SPY"); and Energy Select SPDR ("XLE"). The average daily trading volume and total volume for QOS in IWM options significantly exceeds the volumes for QOS in other ETF options that are listed and traded on the Exchange. The chart below provides trading volume figures for the third quarter in 2007, demonstrating that QOS in IWM options are by far the most popular and heavily traded QOS on the Exchange.

QOS	July 2007		August 2007		September 2007	
	ADV	Total Vol	ADV	Total Vol	ADV	Total Vol
<b>IWM</b>	61,383	1,289,047	76,857	1,767,704	78,706	1,495,408
<b>QQQQ</b>	6,355	133,459	7,413	170,488	8,201	155,819
<b>SPY</b>	4,525	95,024	10,490	241,261	15,274	290,212
<b>DIA</b>	2,488	52,251	3,199	73,574	2,553	48,512
<b>XLE</b>	291	6,105	729	16,758	1,176	22,348

Recently, the Exchange has received requests from market participants to add additional strike prices for QOS in IWM options that would be outside of the price range for setting strikes as provided for under Rule 5.5(e)(3) (hereinafter "+/- \$5 range").<sup>2</sup>

Investors and other market participants have advised the Exchange that they are buying and selling QOS in IWM options to trade volatility. In order to adequately replicate the desired volatility exposure, these market participants need to trade several IWM option series, many having strike prices that fall outside of the +/- \$5 range currently allowed under the QOS rules.

<sup>2</sup> Rule 5.5(e)(3) provides that the Exchange shall list strike prices for a QOS that are within \$5 from the closing price of the underlying on the preceding day.



In addition, other participants have advised the Exchange that their investment strategies involve trading options tied to a particular option "delta,"<sup>3</sup> rather than a particular level of the underlying security or index. At issue is the fact that delta depends on both the relative difference between the level of the underlying security or index and the option strike price, and time to expiration. For example, with IWM trading at \$85 per share, the strike price corresponding to a "25-delta" IWM call (i.e., a call option with a delta of 25) with one month to expiration would be 89. However, the strike price corresponding to a "25-delta" IWM call with 3 months to expiration would be 93, and the strike price of a "25-delta" call with 1 year to expiration would be 106. In short, CBOE has been advised that the +/- \$5 range for QOS in IWM options is insufficient to satisfy customer demand.

In order to meet customer demand, the Exchange proposes to amend Rule 5.5(e), which governs the Quarterly Option Series Pilot Program. Specifically, the Exchange proposes to revise Rule 5.5(e) to allow the Exchange to open additional strike prices of QOS in ETF options that are within thirty percent (30%) above or below the closing price of the underlying ETF (or "Units" as defined in Rule 5.3.06) on the preceding business day. The Exchange would also be permitted to open additional strike prices of QOS in ETF options that are more than 30% above or below the current price of the underlying ETF, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account would not be considered when determining customer interest under

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<sup>3</sup> "Delta" is a measure of how an option price will change in response to a \$1 price change in the underlying security or index. For example, an ABC option with a delta of "50" can be expected to change by \$0.50 in response to a \$1 change in the price of ABC.



this proposed provision. The Exchange would be permitted to list up to sixty (60) additional series per expiration month for each QOS in ETF options.

The Exchange is also proposing to add new paragraph (6) to Rule 5.5, which would set forth a delisting policy. Specifically, with respect to QOS in ETF options, the Exchange would, on a monthly basis, review series that are outside a range of five (5) strikes above and five (5) strikes below the current price of the underlying ETF, and delist series with no open interest in both the put and the call series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

To illustrate how the proposed delisting program would work, assume that IWM closed at \$70 on the day the Exchange conducts the monthly review of QOS in ETF options. Series having strike prices above \$75 and below \$65 would be reviewed by the Exchange for possible delisting. Assume that the Exchange lists the following QOS in IWM options that expire in June 2008:

Calls – Jun 08 exp		Puts – Jun 08 exp	
Strike	Open Interest?	Strike	Open Interest?
62	No	62	No
63	No	63	Yes
64	Yes	64	Yes
* * * * *	* * * * *	* * * * *	* * * * *
76	Yes	76	Yes
77	Yes	77	Yes
78	Yes	78	Yes
79	Yes	79	Yes
80	Yes	80	Yes
81	Yes	81	Yes
82	Yes	82	Yes
83	No	83	No
84	No	84	No
85	No	85	Yes

Calls – Jun 08 exp		Puts – Jun 08 exp	
Strike	Open Interest?	Strike	Open Interest?
86	Yes	86	No
87	Yes	87	Yes
89	Yes	89	Yes
89	Yes	89	No
90	Yes	90	No
91	No	91	No
92	No	92	No
93	No	93	No

The Exchange would delist the following series highlighted in grey above: \$62, \$91, \$92, and \$93. The Exchange would not, however, delist the \$83 and \$84 series because there are series having open interest with strike prices higher than these two series. In addition, the Exchange would not delist the \$63 series because there is open interest in the put series.

Notwithstanding the proposed delisting policy, customer requests to add strikes and/or maintain strikes in QOS in ETF options in series eligible for delisting shall be granted.

Further, in connection with the proposed delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for listing, and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed QOS in ETF options.

It is expected that the proposed delisting policy for QOS in ETF options would be adopted by other options exchanges that have adopted the QOS Pilot Program.

The Exchange represents that it has the necessary systems capacity to support new options series that will result from this proposal. Further, as proposed, the Exchange notes that this rule change would become part of the pilot program and, going forward,

would be considered by the Commission when the Exchange seeks to renew or make permanent the pilot program in the future.<sup>4</sup>

(b) Statutory Basis

Because the additional new series can be added without presenting capacity problems and because the Exchange has proposed a delisting policy with respect to QOS in ETF options, the Exchange believes the rule proposal 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.<sup>5</sup> Specifically, the Exchange believes that the proposed rule change is consistent with the Section 6(b)(5) Act<sup>6</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.

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

This rule proposal 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 rule proposal.

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<sup>4</sup> To the extent the Commission views the proposed rule change as an expansion of the pilot program, thus triggering the requirement under the terms of the Pilot Program Approval Order that the Exchange submit a pilot program report, the Exchange notes that it submitted a report on June 26, 2006, in connection with its filing to extend the pilot program through July 10, 2008. See Securities Exchange Act Release No. 56035 (July 10, 2007), 72 FR 38851 (July 16, 2007) (noticing SR-CBOE-2007-70 which was immediately effective).

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

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

Item 6. Extension of Time Period for Commission Action

The Exchange does not consent to an extension of the time period specified in Section 19(b)(2)<sup>7</sup> of the Act for Commission consideration of the rule proposal.

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

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.

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

This rule proposal 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 4. Marked Copies.

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<sup>7</sup> 15 U.S.C. 78s(b)(2).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-CBOE-2007-96)

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

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change as Modified by Amendment No. 1 Thereto to Permit the Exchange to List Strike Prices for Quarterly Option Series in ETF Options that Fall Within a Percentage Range (30%) Above and Below the Price of the Underlying ETF, and Proposed Delisting Program

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

CBOE proposes to amend Rule 5.5(e), Quarterly Option Series Pilot Program, to permit the Exchange to list strike prices for Quarterly Option Series ("QOS") in exchange traded fund ("ETF") options that fall within a percentage range (30%) above and below the price of the underlying ETF. Additionally, upon demonstrated customer interest, the Exchange would also be permitted to open additional strike prices of Quarterly Option Series in ETF options that are more than 30% above or below the current price of the ETF. Market-Makers trading for their own account would not be considered when determining customer

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

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

interest under this provision. In addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each QOS in ETF options. Further, the proposal includes a delisting program to be undertaken by the Exchange in connection with QOS in ETFs. 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.

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

Amendment 1 replaces the original filing in its entirety. The purpose for Amendment 1 is to revise the original proposal so that it applies to all Quarterly Option Series ("QOS") in Exchange Traded Fund ("ETF") options and to specify that in addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each QOS in ETF options. Amendment 1 also includes a delisting program to be undertaken by the Exchange in connection with QOS in ETF options. Amendment 1 also makes conforming and other technical changes.

The purpose of this rule filing is to amend Rule 5.5(e), Quarterly Option Series Pilot

Program, to permit the Exchange to list up to sixty (60) additional series per expiration month for each QOS in ETF options that fall within a percentage range (30%) above and below the price of the underlying ETF. Additionally, upon demonstrated customer interest, the Exchange would also be permitted to open additional strike prices of Quarterly Option Series in ETF options that are more than 30% above or below the current price of the underlying ETF, Market-Makers trading for their own account would not be considered when determining customer interest under this provision.

On July 7, 2006, the Exchange filed with the Securities and Exchange Commission ("Commission") a pilot program proposal to permit the listing and trading of QOS in options on indexes or options on Exchange Traded Funds ("ETFs") that satisfy the applicable listing criteria under CBOE rules.<sup>3</sup> QOS trade based on calendar quarters that end in March, June, September and December. The Exchange lists QOS that expire at the end of the next consecutive four calendar quarters, as well as the fourth quarter of the next calendar year. For example, if the Exchange were trading QOS in iShares Russell 2000 Index Fund ("IWM") in the month of April 2008, it would list series at the end of the second quarter 2008 (June), third quarter 2008 (September), fourth quarter 2008 (December) and first quarter 2009 (March) and fourth quarter 2009 (December).

Currently, the Exchange list QOS in five ETF options: (1) Nasdaq-100 Index Tracking Stock ("QQQQ"); (2) IWM, (3) DIAMONDS Trust, Series 1 ("DIA"), Standard and Poor's Depositary Receipts/SPDRs ("SPY"); and Energy Select SPDR ("XLE"). The average

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<sup>3</sup> See Securities Exchange Act Release No. 54123 (July 11, 2006), 71 FR 40558 (July 17, 2006) (SR-CBOE-20065-65) ("Pilot Program Approval order"). Under the pilot program, the Exchange may list QOS in up to five currently listed option classes that are either options on ETFs or indexes. The Exchange is also permitted to list QOS in any options class that is selected by other securities exchanges that employ a similar pilot program under their respective rules.



daily trading volume and total volume for QOS in IWM options significantly exceeds the volumes for QOS in other ETF options that are listed and traded on the Exchange. The chart below provides trading volume figures for the third quarter in 2007, demonstrating that QOS in IWM options are by far the most popular and heavily traded QOS on the Exchange.

QOS	July 2007		August 2007		September 2007	
	ADV	Total Vol	ADV	Total Vol	ADV	Total Vol
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Recently, the Exchange has received requests from market participants to add additional strike prices for QOS in IWM options that would be outside of the price range for setting strikes as provided for under Rule 5.5(e)(3) (hereinafter "+/- \$5 range").<sup>4</sup>

Investors and other market participants have advised the Exchange that they are buying and selling QOS in IWM options to trade volatility. In order to adequately replicate the desired volatility exposure, these market participants need to trade several IWM option series, many having strike prices that fall outside of the +/- \$5 range currently allowed under the QOS rules.

In addition, other participants have advised the Exchange that their investment strategies involve trading options tied to a particular option "delta,"<sup>5</sup> rather than a particular

<sup>4</sup> Rule 5.5(e)(3) provides that the Exchange shall list strike prices for a QOS that are within \$5 from the closing price of the underlying on the preceding day.

<sup>5</sup> "Delta" is a measure of how an option price will change in response to a \$1 price change in the underlying security or index. For example, an ABC option with a delta of "50" can be expected to change by \$0.50 in response to a \$1 change in the price of ABC.

level of the underlying security or index. At issue is the fact that delta depends on both the relative difference between the level of the underlying security or index and the option strike price, and time to expiration. For example, with IWM trading at \$85 per share, the strike price corresponding to a "25-delta" IWM call (i.e., a call option with a delta of 25) with one month to expiration would be 89. However, the strike price corresponding to a "25-delta" IWM call with 3 months to expiration would be 93, and the strike price of a "25-delta" call with 1 year to expiration would be 106. In short, CBOE has been advised that the +/- \$5 range for QOS in IWM options is insufficient to satisfy customer demand.

In order to meet customer demand, the Exchange proposes to amend Rule 5.5(e), which governs the Quarterly Option Series Pilot Program. Specifically, the Exchange proposes to revise Rule 5.5(e) to allow the Exchange to open additional strike prices of QOS in ETF options that are within thirty percent (30%) above or below the closing price of the underlying ETF (or "Units" as defined in Rule 5.3.06) on the preceding business day. The Exchange would also be permitted to open additional strike prices of QOS in ETF options that are more than 30% above or below the current price of the underlying ETF, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account would not be considered when determining customer interest under this proposed provision. The Exchange would be permitted to list up to sixty (60) additional series per expiration month for each QOS in ETF options.

The Exchange is also proposing to add new paragraph (6) to Rule 5.5, which would set forth a delisting policy. Specifically, with respect to QOS in ETF options, the Exchange

would, on a monthly basis, review series that are outside a range of five (5) strikes above and five (5) strikes below the current price of the underlying ETF, and delist series with no open interest in both the put and the call series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

To illustrate how the proposed delisting program would work, assume that IWM closed at \$70 on the day the Exchange conducts the monthly review of QOS in ETF options. Series having strike prices above \$75 and below \$65 would be reviewed by the Exchange for possible delisting. Assume that the Exchange lists the following QOS in IWM options that expire in June 2008:

Calls – Jun 08 exp		Puts – Jun 08 exp	
Strike	Open Interest?	Strike	Open Interest?
62	No	62	No
63	No	63	Yes
64	Yes	64	Yes
* * * * *	* * * * *	* * * * *	* * * * *
76	Yes	76	Yes
77	Yes	77	Yes
78	Yes	78	Yes
79	Yes	79	Yes
80	Yes	80	Yes
81	Yes	81	Yes
82	Yes	82	Yes
83	No	83	No
84	No	84	No
85	No	85	Yes
86	Yes	86	No
87	Yes	87	Yes
89	Yes	89	Yes
89	Yes	89	No
90	Yes	90	No
91	No	91	No
92	No	92	No

Calls – Jun 08 exp		Puts – Jun 08 exp	
Strike	Open Interest?	Strike	Open Interest?
93	No	93	No

The Exchange would delist the following series highlighted in grey above: \$62, \$91, \$92, and \$93. The Exchange would not, however, delist the \$83 and \$84 series because there are series having open interest with strike prices higher than these two series. In addition, the Exchange would not delist the \$63 series because there is open interest in the put series.

Notwithstanding the proposed delisting policy, customer requests to add strikes and/or maintain strikes in QOS in ETF options in series eligible for delisting shall be granted.

Further, in connection with the proposed delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for listing, and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed QOS in ETF options.

It is expected that the proposed delisting policy for QOS in ETF options would be adopted by other options exchanges that have adopted the QOS Pilot Program.

The Exchange represents that it has the necessary systems capacity to support new options series that will result from this proposal. Further, as proposed, the Exchange notes that this rule change would become part of the pilot program and, going forward, would be considered by the Commission when the Exchange seeks to renew or make permanent the pilot program in the future.<sup>6</sup>

<sup>6</sup> To the extent the Commission views the proposed rule change as an expansion of the pilot program, thus triggering the requirement under the terms of the Pilot Program Approval Order that the Exchange submit a pilot program report, the Exchange notes that it submitted a report on June 26, 2006, in connection with its filing to extend the pilot program through July 10, 2008. See Securities Exchange Act Release No.

## 2. Statutory Basis

Because the additional new series can be added without presenting capacity problems and because the Exchange has proposed a delisting policy with respect to QOS in ETF options, the Exchange believes the rule proposal 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.<sup>7</sup> Specifically, the Exchange believes that the proposed rule change is consistent with the Section 6(b)(5) Act<sup>8</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.

### 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

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56035 (July 10, 2007), 72 FR 38851 (July 16, 2007) (noticing SR-CBOE-2007-70 which was immediately effective).

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

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

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-2007-96 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-2007-96. 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-2007-96 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 4

Additions set forth in the proposed rule text of original SR-CBOE-2007-96 are underlined and deletions are [bracketed]. Additions being made pursuant to Amendment No. 1 to SR-CBOE-2007-96 are double underlined and deletions are ~~struck through~~.

Chicago Board Options Exchange, Incorporated  
Rules

\* \* \* \* \*

Rule 5.5—Series of Option Contracts Open for Trading

RULE 5.5 (a)- (d) No change.

(e) *Quarterly Option Series Pilot Program.* Through a pilot program, the Exchange may list and trade options series that expire at the close of business on the last business day of a calendar quarter ("Quarterly Options Series"). The Exchange may list Quarterly Options Series for up to five (5) currently listed options classes that are either index options or options on exchange traded funds ("ETF"). In addition, the Exchange may also list Quarterly Options Series on any options classes that are selected by other securities exchanges that employ a similar pilot program under their respective rules. The pilot program will expire on July 10, 2008.

(1) The Exchange may list series that expire at the end of the next consecutive four (4) calendar quarters, as well as the fourth quarter of the next calendar year. For example, if the Exchange is trading Quarterly Options Series in the month of May 2006, it may list series that expire at the end of the second, third, and fourth quarters of 2006, as well as the first and fourth quarters of 2007. Following the second quarter 2006 expiration, the Exchange could add series that expire at the end of the second quarter of 2007.

(2) Quarterly Options Series will be P.M. settled.

(3) Initial Series. The strike price for each Quarterly Options Series will be fixed at a price per share, with at least two strike prices above and two strike prices below the approximate value of the underlying security at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange shall list strike prices for a Quarterly Options Series that are within \$5 from the closing price of the underlying on the preceding day.

(4) Additional Series. Additional Quarterly Options Series of the same class may be open for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying security moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within \$5 ~~from the closing price of the underlying~~ thirty percent (30%) above or below

the closing price of the underlying ETF (or "Units" as defined in Rule 5.3.06) on the preceding day. The Exchange may also open additional strike prices of Quarterly Option Series in ETF options that are more than 30% above or below the current price of the underlying ETF provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. The opening of the new Quarterly Options Series shall not affect the series of options of the same class previously opened. In addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each Quarterly Options Series in ETF options.

(4) Notwithstanding the preceding paragraph, the Exchange may open additional strike prices of Quarterly Options Series in iShares Russell 2000 Index Fund ("IWM Fund") options that are within thirty percent (30%) above or below the closing price of the IWM Fund on the preceding business day. The Exchange may also open additional strike prices of Quarterly Option Series in IWM options that are more than 30% above or below the current price of the IWM Fund, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision.

(5) [(4)] The interval between strike prices on Quarterly Options Series shall be the same as the interval for strike prices for series in that same options class that expire in accordance with the normal monthly expiration cycle.

(6) (A) Delisting Policy. With respect to Quarterly Options Series in ETF options added pursuant to the above paragraphs, the Exchange will, on a monthly basis, review series that are outside a range of five (5) strikes above and five (5) strikes below the current price of the underlying ETF, and delist series with no open interest in both the put and the call series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

(B) Notwithstanding the above referenced delisting policy, customer requests to add strikes and/or maintain strikes in Quarterly Options Series in ETF options in series eligible for delisting shall be granted.

(C) In connection with the above referenced delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting, and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed Quarterly Options Series in ETF options.

*...Interpretations and Policies*

No change

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