

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁸

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Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-52180; File No. SR-OC-2005-02]

Self-Regulatory Organization; OneChicago, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Listing Standards for Security Futures Products and the Final Settlement Price for Futures on Narrow-Based Security Indexes

July 29, 2005.

Pursuant to section 19(b)(7) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-7 thereunder² notice is hereby given that on July 20, 2005 OneChicago, LLC (“OneChicago” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change described in items I, II, and III below, which Items have been prepared by OneChicago.³ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

OneChicago also has filed the proposed rule change with the Commodity Futures Trading Commission (“CFTC”). OneChicago filed a written certification with CFTC under Section 5c(c) of the Commodity Exchange Act (“CEA”)⁴ on July 18, 2005.

I. Self-Regulatory Organization’s Description of the Proposed Rule Change

OneChicago is proposing to amend its listing standards for security futures products (“SFPs”) and its rule relating to the final settlement price for futures on narrow-based security indexes (“NBIs”). The text of the proposed rule change follows; additions are *italicized*; deletions are [bracketed].

[Eligibility and Maintenance Criteria for Security Futures Products]

906 [I.] Listing Standards

(a) Initial listing standards for a security futures product based on a single security. [A.] For a security futures product that is physically settled to be eligible for initial listing, the security underlying the futures contract must meet each of the following requirements:

[(i)] (1) It must be a common stock, an American Depositary Receipt (“ADR”) representing common stock or ordinary shares, a share of an exchange traded fund (“ETF Share”), a trust issued receipt (“TIR”) or a share of a registered closed-end management investment company (“Closed-End Fund Share”).

[(ii)] (2) It must be registered under Section 12 of the Securities Exchange Act of 1934 (as amended from time to time, the “Exchange Act”), and its issuer must be in compliance with any applicable requirements of the Exchange Act.

[(iii)] (3) It must be listed on a national securities exchange (“Exchange”) or traded through the facilities of a national securities association (“Association”) and reported as a “national market system” security as set forth in Rule 11Aa3-1 under the Exchange Act (“NMS security”).

[(iv)] (4) There must be at least seven million shares or receipts evidencing the underlying security outstanding that are owned by persons other than those required to report their security holdings pursuant to Section 16(a) of the Exchange Act.

Requirement [(iv)] (4) as Applied to Restructure Securities:

In the case of an equity security that a company issues or anticipates issuing as the result of a spin-off, reorganization, recapitalization, restructuring or similar corporate transaction (“Restructure Security”), [OneChicago, LLC (“OneChicago”)] *the Exchange* may assume that this requirement is satisfied if, based on a reasonable investigation, it determines that, on the product’s intended listing date: (A) at least 40 million shares of the Restructure Security will be issued and outstanding; or (B) the Restructure Security will be listed on an Exchange or automated quotation system that is subject to an initial listing requirement of no less than seven million publicly owned shares.

In the case of a Restructure Security issued or distributed to the holders of the equity security that existed prior to the ex-date of a spin-off, reorganization, recapitalization, restructuring or similar

corporate transaction (“Original Equity Security”), [OneChicago] *the Exchange* may consider the number of outstanding shares of the Original Equity Security prior to the spin-off, reorganization, recapitalization, restructuring or similar corporate transaction (“Restructuring Transaction”).

[(v)] (5) In the case of an underlying security other than an ETF Share, TIR or Closed-End Fund Share, there must be at least 2,000 securityholders.

Requirement [(v)] (5) as Applied to Restructure Securities:

If the security under consideration is a Restructure Security, [OneChicago] *the Exchange* may assume that this requirement is satisfied if, based on a reasonable investigation, [OneChicago] *the Exchange* determines that, on the product’s intended listing date: (A) at least 40 million shares of the Restructure Security will be issued and outstanding; or (B) the Restructure Security will be listed on an Exchange or automated quotation system that is subject to an initial listing requirement of at least 2,000 shareholders. In the case of a Restructure Security issued or distributed to the holders of the Original Equity Security, [OneChicago] *the Exchange* may consider the number of shareholders of the Original Equity Security prior to the Restructuring Transaction.

[(vi)] (6) In the case of an underlying security other than an ETF Share, TIR or Closed-End Fund Share, it must have trading volume (in all markets in which the underlying security is traded) of at least 2,400,000 shares in the preceding 12 months.

Requirement [(vi)] (6) as Applied to Restructure Securities:

Look-Back Test: In determining whether a Restructure Security that is issued or distributed to the shareholders of an Original Equity Security (but not a Restructure Security that is issued pursuant to a public offering or rights distribution) satisfies this requirement, [OneChicago] *the Exchange* may “look back” to the trading volume history of the Original Equity Security prior to the ex-date of the Restructuring Transaction if the following Look-Back Test is satisfied:

[(1)] (A) The Restructure Security has an aggregate market value of at least \$500 million;

[(2)] (B) The aggregate market value of the Restructure Security equals or exceeds the Relevant Percentage (defined below) of the aggregate market value of the Original Equity Security;

[(3)] (C) The aggregate book value of the assets attributed to the business represented by the Restructure Security equals or exceeds \$50 million and the

⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(7).

² 17 CFR 240.19b-7.

³ With the permission of OneChicago, the Commission made typographical, non-substantive corrections to the text of the proposed rule change. Telephone conversations between Madge Piro, Counsel for OneChicago, and Jennifer Dodd, Special Counsel, Division of Market Regulation (“Division”), Commission, July 21 and 29, 2005.

⁴ 7 U.S.C. 7a-2(c).

Relevant Percentage of the aggregate book value of the assets attributed to the business represented by the Original Equity Security; or

[(4)] (D) The revenues attributed to the business represented by the Restructure Security equal or exceed \$50 million and the Relevant Percentage of the revenues attributed to the business represented by the Original Equity Security.

For purposes of determining whether the Look-Back Test is satisfied, the term "Relevant Percentage" means: (i) 25%, when the applicable measure determined with respect to the Original Equity Security or the business it represents includes the business represented by the Restructure Security; and (ii) 33-1/3%, when the applicable measure determined with respect to the Original Equity Security or the business it represents excludes the business represented by the Restructure Security.

In calculating comparative aggregate market values, [OneChicago] the Exchange will use the Restructure Security's closing price on its primary market on the last business day prior to the date on which the Restructure Security is selected as an underlying security for a security futures product ("Selection Date"), or the Restructure Security's opening price on its primary market on the Selection Date, and will use the corresponding closing or opening price of the related Original Equity Security.

Furthermore, in calculating comparative asset values and revenues, [OneChicago] the Exchange will use the issuer's (i) latest annual financial statements or (ii) most recently available interim financial statements (so long as such interim financial statements cover a period of not less than three months), whichever are more recent. Those financial statements may be audited or unaudited and may be pro forma.

Limitation on Use of Look-Back Test: Except in the case of a Restructure Security that is distributed pursuant to a public offering or rights distribution, [OneChicago] the Exchange will not rely upon the trading volume history of an Original Equity Security for any trading day unless it also relies upon the market price history for that trading day.

In addition, once [OneChicago] the Exchange commences to rely upon a Restructure Security's trading volume and market price history for any trading day, [OneChicago] the Exchange will not rely upon the trading volume and market price history of the Original Equity Security for any trading day thereafter.

[(vii)] (7) In the case of an underlying security that is an ETF Share, TIR or

Closed-End Fund Share, it must have had a total trading volume (in all markets in which the underlying security has traded) of at least 2,400,000 shares or receipts evidencing the underlying security in the preceding 12 months.

[(viii)] (8) If the underlying security is a "covered security" as defined under Section 18(b)(1)(A) of the Securities Act of 1933, the market price per share of the underlying security has been at least \$3.00 for the previous five consecutive business days preceding the date on which the Exchange submits a certificate to The Options Clearing Corporation for listing and trading. For purposes of this provision, the market price of such underlying security is measured by the closing price reported in the primary market in which the underlying security is traded.

Requirement [(viii)] (8) as Applied to Restructure Securities:

Look-Back Test: In determining whether a Restructure Security that is issued or distributed to the shareholders of an Original Equity Security (but not a Restructure Security that is issued pursuant to a public offering or rights distribution) satisfies this requirement, [OneChicago] the Exchange may "look back" to the market price history of the Original Equity Security prior to the ex-date of the Restructuring Transaction if the following Look-Back Test is satisfied:

[(a)] (A) The Restructure Security has an aggregate market value of at least \$500 million;

[(b)] (B) The aggregate market value of the Restructure Security equals or exceeds the Relevant Percentage (defined below) of the aggregate market value of the Original Equity Security;

[(c)] (C) The aggregate book value of the assets attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of the aggregate book value of the assets attributed to the business represented by the Original Equity Security; or

[(d)] (D) The revenues attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of the revenues attributed to the business represented by the Original Equity Security.

For purposes of determining whether the Look-Back Test is satisfied, the term "Relevant Percentage" means: (i) 25%, when the applicable measure determined with respect to the Original Equity Security or the business it represents includes the business represented by the Restructure Security; and (ii) 33-1/3%, when the applicable

measure determined with respect to the Original Equity Security or the business it represents excludes the business represented by the Restructure Security.

In calculating comparative aggregate market values, [OneChicago] the Exchange will use the Restructure Security's closing price on its primary market on the last business day prior to the Selection Date, or the Restructure Security's opening price on its primary market on the Selection Date, and will use the corresponding closing or opening price of the related Original Equity Security.

Furthermore, in calculating comparative asset values and revenues, [OneChicago] the Exchange will use the issuer's (i) latest annual financial statements or (ii) most recently available interim financial statements (so long as such interim financial statements cover a period of not less than three months), whichever are more recent. Those financial statements may be audited or unaudited and may be pro forma.

Restructure Securities Issued in Public Offering or Rights Distribution: In determining whether a Restructure Security that is distributed pursuant to a public offering or a rights distribution satisfies requirement [(viii)] (8), [OneChicago] the Exchange may look back to the market price history of the Original Equity Security if: (i) the foregoing Look-Back Test is satisfied; (ii) the Restructure Security trades "regular way" on an Exchange or automatic quotation system for at least five trading days immediately preceding the Selection Date; and (iii) at the close of trading on each trading day on which the Restructure Security trades "regular way" prior to the Selection Date, as well as at the opening of trading on Selection Date, the market price of the Restructure Security was at least \$3.00.

Limitation on Use of Look-Back Test: Except in the case of a Restructure Security that is distributed pursuant to a public offering or rights distribution, [OneChicago] the Exchange will not rely upon the market price history of an Original Equity Security for any trading day unless it also relies upon the trading volume history for that trading day. In addition, once [OneChicago] the Exchange commences to rely upon a Restructure Security's trading volume and market price history for any trading day, [OneChicago] the Exchange will not rely upon the trading volume and market price history of the related Original Equity Security for any trading day thereafter.

[(ix)] (9) If the underlying security is not a "covered security" as defined under Section 18(b)(1)(A) of the Securities Act of 1933, it must have had

a market price per security of at least \$7.50, as measured by the lowest closing price reported in any market in which it has traded, for the majority of business days during the three calendar months preceding the date of selection.

Requirement [(ix)] (9) as Applied to Restructure Securities:

Look-Back Test: In determining whether a Restructure Security that is issued or distributed to the shareholders of an Original Equity Security (but not a Restructure Security that is issued pursuant to a public offering or rights distribution) satisfies this requirement, [OneChicago] *the Exchange* may “look back” to the market price history of the Original Equity Security prior to the ex-date of the Restructuring Transaction if the following Look-Back Test is satisfied:

[(a)] (A) The Restructure Security has an aggregate market value of at least \$500 million;

[(b)] (B) The aggregate market value of the Restructure Security equals or exceeds the Relevant Percentage (defined below) of the aggregate market value of the Original Equity Security;

[(c)] (C) The aggregate book value of the assets attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of the aggregate book value of the assets attributed to the business represented by the Original Equity Security; or

[(d)] (D) The revenues attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of the revenues attributed to the business represented by the Original Equity Security.

For purposes of determining whether the Look-Back Test is satisfied, the term “Relevant Percentage” means: (i) 25%, when the applicable measure determined with respect to the Original Equity Security or the business it represents includes the business represented by the Restructure Security; and (ii) 33-1/3%, when the applicable measure determined with respect to the Original Equity Security or the business it represents excludes the business represented by the Restructure Security.

In calculating comparative aggregate market values, [OneChicago] *the Exchange* will use the Restructure Security’s closing price on its primary market on the last business day prior to the Selection Date, or the Restructure Security’s opening price on its primary market on the Selection Date, and will use the corresponding closing or opening price of the related Original Equity Security.

Furthermore, in calculating comparative asset values and revenues, [OneChicago] *the Exchange* will use the issuer’s (i) latest annual financial statements or (ii) most recently available interim financial statements (so long as such interim financial statements cover a period of not less than three months), whichever are more recent. Those financial statements may be audited or unaudited and may be pro forma.

Restructure Securities Issued in Public Offering or Rights Distribution: In determining whether a Restructure Security that is distributed pursuant to a public offering or a rights distribution satisfies requirement [(ix)] (9), [OneChicago] *the Exchange* may look back to the market price history of the Original Equity Security if: (i) the foregoing Look-Back Test is satisfied; (ii) the Restructure Security trades “regular way” on an Exchange or automatic quotation system for at least five trading days immediately preceding the Selection Date; and (iii) at the close of trading on each trading day on which the Restructure Security trades “regular way” prior to the Selection Date, as well as at the opening of trading on Selection Date, the market price of the Restructure Security was at least \$7.50.

Limitation on Use of Look-Back Test: Except in the case of a Restructure Security that is distributed pursuant to a public offering or rights distribution, [OneChicago] *the Exchange* will not rely upon the market price history of an Original Equity Security for any trading day unless it also relies upon the trading volume history for that trading day. In addition, once [OneChicago] *the Exchange* commences to rely upon a Restructure Security’s trading volume and market price history for any trading day, [OneChicago] *the Exchange* will not rely upon the trading volume and market price history of the related Original Equity Security for any trading day thereafter.

[(x)] (10) If the underlying security is an ADR:

[(a)] (A) [OneChicago] *The Exchange* must have in place an effective surveillance sharing agreement with the primary exchange in the home country where the stock underlying the ADR is traded;

[(b)] (B) The combined trading volume of the ADR and other related ADRs and securities in the U.S. ADR market, or in markets with which [OneChicago] *the Exchange* has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least 50% of the combined worldwide trading volume in the ADR, the security underlying the ADR, other classes of common stock related to the underlying

security, and ADRs overlying such other stock over the three-month period preceding the dates of selection of the ADR for futures trading (“Selection Date”);

[(c)(1)] (C)(i) The combined trading volume of the ADR and other related ADRs and securities in the U.S. ADR market, and in markets with which [OneChicago] *the Exchange* has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least 20% of the combined worldwide trading volume in the ADR and in other related ADRs and securities over the three-month period preceding the Selection Date;

[(2)] (ii) The average daily trading volume for the ADR in the U.S. markets over the three-month period preceding the Selection Date is at least 100,000 receipts; and

[(3)] (iii) The daily trading volume for the ADR is at least 60,000 receipts in the U.S. markets on a majority of the trading days for the three-month period preceding the Selection Date; or

[(d)] (D) The Securities and Exchange Commission and Commodity Futures Trading Commission have otherwise authorized the listing.

[(xi)] (11) [OneChicago] *The Exchange* will not list for trading any security futures product where the underlying security is a Restructure Security that is not yet issued and outstanding, regardless of whether the Restructure Security is trading on a “when issued” basis or on another basis that is contingent upon the issuance or distribution of securities.

[II.] (b) Maintenance standards for a security futures product based on a single security.

[A] (1) *The Exchange* [OneChicago] will not open for trading any security futures product that is physically settled with a new delivery month, and may prohibit any opening purchase transactions in the security futures product already trading, to the extent it deems such action necessary or appropriate, unless the underlying security meets each of the following maintenance requirements; provided that, if the underlying security is an ETF Share, TIR or Closed-End Fund Share, the applicable requirements for initial listing of the related security futures product (as described in [I.A.] 906(a) above) shall apply in lieu of the following maintenance requirements:

[(i)] (A) It must be registered under Section 12 of the Exchange Act.

[(ii)] (B) There must be at least 6,300,000 shares or receipts evidencing the underlying security outstanding that are owned by persons other than those who are required to report their security

holdings pursuant to Section 16(a) of the Exchange Act.

[(iii)] (C) There must be at least 1,600 securityholders.

[(iv)] (D) It must have had an average daily trading volume (across all markets in which the underlying security is traded) of least 82,000 shares or receipts evidencing the underlying security in each of the preceding 12 months.

Requirement [(iv)] (D) as Applied to Restructure Securities:

If a Restructure Security is approved for a security futures product trading under the initial listing standards in [Section I] *paragraph (a) of this Rule*, the average daily trading volume history of the Original Equity Security (as defined in [Section I] *paragraph (a) of this Rule*) prior to the commencement of trading in the Restructure Security (as defined in [Section I] *paragraph (a) of this Rule*), including “when-issued” trading, may be taken into account in determining whether this requirement is satisfied.

Requirement (v) as Applied to Restructure Securities:

If a Restructure Security is approved for security futures product trading under the initial listing standards in Section I, the market price history of the Original Equity Security prior to the commencement of trading in the Restructure Security, including “when-issued” trading, may be taken into account in determining whether this requirement is satisfied.]

[(v)] (E) The market price per share of the underlying security has not closed below \$3.00 on the previous trading day to the Expiration Day of the nearest expiring Contract on the underlying security. The market price per share of the underlying security will be measured by the closing price reported in the primary market in which the underlying security traded.

Requirement [(v)] (E) as Applied to Restructure Securities:

If a Restructure Security is approved for security futures product trading under the initial listing standards in [Section I] *paragraph (a) of this Rule*, the market price history of the Original Equity Security prior to the commencement of trading in the Restructure Security, including “when-issued” trading, may be taken into account in determining whether this requirement is satisfied.

[(vi)] (F) If the underlying security is an ADR and was initially deemed appropriate for security futures product trading under paragraph [(x)(b)] (10)(B) or [(x)(c)] (10)(C) in [Section I] *paragraph (a) of this Rule*, [OneChicago] *the Exchange* will not open for trading security futures products having

additional delivery months on the ADR unless:

[(a)] (i) The percentage of worldwide trading volume in the ADR and other related securities that takes place in the U.S. and in markets with which [OneChicago] *the Exchange* has in place an effective surveillance sharing agreement for any consecutive three-month period is: [(1)] (I) at least 30%, without regard to the average daily trading volume in the ADR; or [(2)] (II) at least 15% when the average U.S. daily trading volume in the ADR for the previous three months is at least 70,000 receipts;

[(b)] (ii) *The Exchange* [OneChicago] has in place an effective surveillance sharing agreement with the primary exchange in the home country where the security underlying the ADR is traded; or

[(c)] (iii) The Securities and Exchange Commission and Commodity Futures Trading Commission have otherwise authorized the listing.

[B.] (2) *The Exchange* [OneChicago] will not open trading in a security futures product with a new delivery month unless:

[(i)] (A) The issuer of the underlying security satisfies applicable Exchange Act reporting requirements, or corrects any failure within 30 days after the date the report was due to be filed; and

[(ii)] (B) The underlying security is listed on a national securities exchange or is principally traded through the facilities of a national securities association and is designated as an NMS security.

[C.] (3) If prior to the withdrawal from trading of a security futures product covering an underlying security that has been found not to meet [OneChicago’s] *the Exchange’s* requirements for continued approval, [OneChicago] *the Exchange* determines that the underlying security again meets [OneChicago’s] *the Exchange’s* requirements, [OneChicago] *the Exchange* may open for trading new delivery months in such security futures product and may lift any restriction on opening purchase transactions.

[D.] (4) Whenever [OneChicago] *the Exchange* announces that approval of an underlying security has been withdrawn for any reason or that [OneChicago] *the Exchange* has been informed that the issuer of an underlying security has ceased to be in compliance with Exchange Act reporting requirements, each Clearing Member and Exchange Member (as such terms are defined in the Rules of [OneChicago] *the Exchange* as in effect from time to time) shall, prior to effecting any transaction in security futures products with respect to

such underlying security for any customer, inform such customer of such fact and that [OneChicago] *the Exchange* may prohibit further transactions in such security futures products as it determines is necessary and appropriate.

1006 [III.] *Listing Standards*

(a) Initial eligibility criteria for a security futures product based on an index composed of two or more securities.

[A.] For a security futures product [that is physically settled] based on an index composed of two or more securities to be eligible for initial listing, the index must:

[(i)] (1) Meet the definition of a narrow-based security index in Section 1a(25) of the Commodity Exchange Act and Section 3(a)(55) of the Exchange Act; [and]

[(ii)] (2) Meet the following requirements:

[(a)](A)(i) It must be capitalization-weighted, modified capitalization-weighted, price-weighted, *share-weighted*, equal dollar-weighted [or], [in the case of an index underlying physically settled security futures products only,] approximately equal dollar-weighted, *or modified equal-dollar weighted*.

(ii) [Weighting Methodology for Approximately Equal Dollar-Weighted Indices Underlying Physically Settled Security Futures Products:]

In the case of a [physically settled] security futures product based on an approximately equal dollar-weighted index composed of one or more securities, each component security will be weighted equally based on its market price on the *index* [S]selection [D]date, subject to rounding up or down the number of shares or receipts evidencing such security to the nearest multiple of 100 shares or receipts.

(iii) *In the case of a modified equal-dollar weighted index, each underlying component represents a pre-determined weighting percentage of the entire index. Each component is assigned a weight that takes into account the relative market capitalization of the securities comprising the index.*

(iv) *In the case of a share-weighted index, the index is calculated by multiplying the price of the component security by an adjustment factor. Adjustment factors are chosen to reflect the investment objective deemed appropriate by the designer of the index and will be published by the Exchange as part of the contract specifications. The value of the index is calculated by adding the weight of each component security and dividing the total by an*

index divisor, calculated to yield a benchmark index level as of a particular date. A share-weighted index is not adjusted to reflect changes in the number of outstanding shares of its components.

[(b)] (B) Its component securities must be registered under Section 12 of the Exchange Act.

[(c)] (C) Subject to Subparagraphs [(e)] (E) and [(1)] (O) below, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements for listing a single-security future, as set forth in [Section I] *Rule 906(a)*.

[(d)] (D) Each component security in the index must have a minimum market capitalization of at least \$75 million, except that each of the lowest weighted securities in the index that in the aggregate account for no more than 10% of the weight of the index may have a minimum market capitalization of only \$50 million.

[(e)] (E) The average daily trading volume in each of the preceding six months for each component security in the index must be at least 45,500 shares or receipts, except that each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index may have an average daily trading volume of only 22,750 shares or receipts for each of the last six months.

[(f)] (F) Each component security in the index must be [(1)] (i) listed on an Exchange or traded through the facilities of an Association and [(2)] (ii) reported as an NMS security.

[(g)] (G) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements must not represent more than 20% of the weight of the index.

[(h)] (H) The current underlying index value must be reported at least once every 15 seconds during the time the security futures product is traded on [OneChicago] *the Exchange*.

[(i)] (I) An equal dollar-weighted index must be rebalanced at least once every calendar quarter, except that an approximately equal dollar-weighted index underlying a [physically settled] security futures product need only be rebalanced as provided in [(j)] (L) below.

(J) A modified equal-dollar weighted index must be rebalanced quarterly.

(K) A share-weighted index will not be rebalanced.

[(j)] (L) An approximately equal dollar-weighted index underlying a [physically settled] security futures product must be rebalanced annually on

December 31 of each year if the [aggregate value (i.e., the original number of shares multiplied by their current price) of the security position with the highest value is two or more times greater than the aggregate value of the security position with the lowest value in the index for any period of 10 consecutive trading days within the last month preceding the date of determination. In addition, OneChicago may from time to time, but no more frequently than quarterly, elect to rebalance any approximately equal dollar-weighted index underlying a physically settled security futures product depending on several factors, including the relative price changes of the component securities, the levels of volume and open interest in the contracts and input from market participants.] *notional value of the largest component is at least twice the notional value of the smallest component for 50 per cent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. In addition, the Exchange reserves the right to rebalance quarterly at its discretion.*

[Procedure for Rebalancing under (j):

The date of determination for the mandatory annual rebalancing of an approximately equal dollar-weighted index underlying a physically settled security futures product as described in the first sentence of (j) will be the last trading day of the year. New contracts issued on or after a date on which the corresponding index is rebalanced in accordance with (j) will be based on an index consisting of the original component securities, weighted applying the methodology described under (a) above on the basis of security prices on the rebalancing date. Outstanding contracts will not be affected by any rebalancing.]

(M) *An underlying index may be rebalanced on interim basis if warranted as a result of extraordinary changes in the relative values of the component securities. To the extent investors with open position must rely upon the continuity of the security futures Contract on the index, outstanding Contracts are unaffected by rebalancings.*

[(k)] (N) If the underlying index is maintained by a broker-dealer, the index must be calculated by a third party who is not a broker-dealer, and the broker-dealer must have in place an information barrier around its personnel who have access to information

concerning changes in and adjustments to the index.

[(1)] (O) In a capitalization-weighted index, the lesser of: [(1)] (i) the five highest weighted component securities in the index each have had an average daily trading volume of at least 90,000 shares or receipts over the past six months; or [(2)] (ii) the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of securities in the index each have had an average daily trading volume of at least 90,000 shares or receipts over the past six months.

(P) *If a security future on an index is cash settled, it must be designated as AM-settled.*

[IV.] (b) Maintenance standards for a security futures product based on an index composed of two or more securities.

[A.] (1) [OneChicago] *The Exchange* will not open for trading security futures products [that are physically settled based] on an index composed of two or more securities with a new delivery month unless the underlying index:

[(i)] (A.) Meets the definition of a narrow-based security index in Section 1a(25) of the Commodity Exchange Act and Section 3(a)(55) of the Exchange Act; and

[(ii)] (B.) Meets the following requirements:

[(a)] (i) Its component securities must be registered under Section 12 of the Exchange Act;

[(b)] (ii) Subject to [(d)] (iv) and [(k)] (xiii) below, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements for listing a single-security future, as set forth in [Section I] *Rule 906(a)*.

[(c)] (iii) Each component security in the index must have a market capitalization of at least \$75 million, except that each of the lowest weighted component securities that in the aggregate account for no more than 10% of the weight of the index may have a market capitalization of only \$50 million.

[(d)] (iv) The average daily trading volume in each of the preceding six months for each component security in the index must be at least 22,750 shares or receipts, except that each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index may have an average daily trading volume of at least 18,200 shares or receipts for each of the last six months.

[(e)] (v) Each component security in the index must be [(1)] (I) listed on an Exchange or traded through the facilities of an Association and [(2)] (II) reported as an NMS security.

[(f)] (vi) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements must not represent more than 20% of the weight of the index.

[(g)] (vii) The current underlying index value must be reported at least once every 15 seconds during the time the security futures product is traded on [OneChicago] the Exchange.

[(h)] (viii) An equal dollar-weighted index must be rebalanced at least once every calendar quarter, except that an approximately equal dollar-weighted index underlying a [physically settled] security futures product need only be rebalanced as provided in [(i)] (I) below.

[(i)] (ix) An approximately equal dollar-weighted index underlying a physically settled security futures product must be rebalanced annually on *December 31 of each year* if [the aggregate value (*i.e.*, the original number of shares multiplied by their current price) of the security position with the highest value is two or more times greater than the aggregate value of the security position with the lowest value in the index for any period of 10 consecutive trading days within the last month preceding the date of determination. In addition, OneChicago may from time to time, but no more frequently than quarterly, elect to rebalance any approximately equal dollar-weighted index underlying a physically settled security futures product depending on several factors, including the relative price changes of the component securities, the levels of volume and open interest in the contracts and input from market participants.] *the notional value of the largest component is at least twice the notional value of the smallest component for 50 per cent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. In addition, the Exchange reserves the right to rebalance quarterly at its discretion.*

[Procedure for Rebalancing under (i): See under III.A.(ii)(j) above.]

[(x)] *In a modified equal-dollar weighted index the Exchange will rebalance the index quarterly.*

[(xi)] *In a share-weighted index, if a share-weighted Index fails to meet the maintenance listing standards under Rule 1006(b), the Exchange will not re-*

balance the index and will not issue Contracts for new delivery months for that index.

[(j)] (xii) If the underlying index is maintained by a broker-dealer, the index must be calculated by a third party who is not a broker-dealer, and the broker-dealer must have in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index.

[(k)] (xiii) In a capitalization-weighted index, the lesser of: [(1)] (I) the five highest weighted component securities in the index each have had an average daily trading volume of at least 45,500 shares or receipts over the past six months; [and] *or* [(2)] (II) the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average daily trading volume of at least 45,500 shares or receipts over the past six months.

[(l)] (xiv) The total number of component securities in the index must not increase or decrease by more than 33-1/3% from the number of component securities in the index at the time of its initial listing.

[E.] (2) If the foregoing maintenance standards *in subparagraph (b)* are not satisfied, [OneChicago] *the Exchange* will not open for trading a security futures product based on an index composed of two or more securities with a new delivery month, unless it receives the approval of the Securities and Exchange Commission and the Commodity Futures Trading Commission.

1007 LISTING STANDARDS

For MicroSectors

Cash Settled narrow-based index futures

[V.] (a) Initial eligibility criteria for a MicroSector security futures product, based on an index composed of two or more securities.

[A.] *Notwithstanding Rule 1006*, [F] for a cash settled Dow Jones MicroSector security futures product, the Dow Jones MicroSector Index must:

[(i)] (1) Meet the definition of a narrow-based security index in Section 1a(25) of the Commodity Exchange Act and Section 3(a)(55) of the Exchange Act; and

[(ii)] (2) Meet the following requirements:

[(a)] (A) It must be approximately equal dollar-weighted composed of one or more securities in which each component security will be weighted

equally based on its market price on the Selection Date.

[(b)] (B) Each of its component securities must be registered under Section 12 of the Exchange Act.

[(c)] (C) Each of its component securities must be a component security in the Dow Jones U.S. Total Market Index or an ADR linked to a security in the Dow Jones Global Index.

[(d)] (D) Each of its component securities must be the subject of a U.S. exchange-traded option on the date of selection for inclusion in the index.

[(e)] (E) Each of its component securities must have a trading history on a U.S. exchange for at least 12 months.

[(f)] (F) Each of its component securities must have a "float market capitalization" of at least one billion dollars.

[(g)] (G) Each of its component securities close at or above \$7.50 for each of the trading days in the three months prior to selection for the index.

[(h)] (H) Subject to [(g), (i) and (k)] (G), (I) and (K) below, component securities that account for at least 90 per cent of the total index weight and at least 80 per cent of the total number of component securities in the index must meet the requirements for listing a single-security future contract, as set forth in [Section I] *Rule 906(a)*.

[(i)] (I) Each of its component securities must have an average daily trading volume in each of the preceding 12 months prior to selection for inclusion in the index greater than 109,000 shares (an ADR must have an average daily trading volume greater than 100,000 receipts).

[(j)] (J) Each of its component securities must be [(1)] (i) listed on an Exchange or traded through the facilities of an Association and [(2)] (ii) reported as an NMS security.

[(k)] (K) [(1)] (i) [OneChicago] *The Exchange* must have in place an effective surveillance sharing agreement with the primary exchange in the home country where the stock underlying each component ADR is traded;

[(2)] (ii) The combined trading volume of each component ADR and other related ADRs and securities in the U.S. ADR market, or in markets with which [OneChicago] *the Exchange* has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least 50% of the combined worldwide trading volume in the ADR, the security underlying the ADR, other classes of common stock related to the underlying security, and ADRs overlying such other stock over the three-month period preceding the dates of selection of the ADR for futures trading ("Selection Date");

[(3)(A)] (iii) (I) The combined trading volume of each component ADR and other related ADRs and securities in the U.S. ADR market, and in markets with which [OneChicago] *the Exchange* has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least 20% of the combined worldwide trading volume in the ADR and in other related ADRs and securities over the three-month period preceding the Selection Date;

[(B)] (II) The average daily trading volume for the ADR in the U.S. markets over the three-month period preceding the Selection Date is at least 100,000 receipts; and

[(C)] (III) The daily trading volume for the ADR is at least 60,000 receipts in the U.S. markets on a majority of the trading days for the three-month period preceding the Selection Date;

[(4)] (iv) The Securities and Exchange Commission and Commodity Futures Trading Commission have otherwise authorized the listing; or

[(5)] (v) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements must not represent more than 20% of the weight of the index.

[(1)] (L) The current underlying index value must be reported at least once every 15 seconds during the time the MicroSector futures product is traded on [OneChicago] *the Exchange*.

[(m)] (M) An index underlying a MicroSector future must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional [volume] value of the smallest component for 50 per cent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of component securities in the index is greater than five at the time of rebalancing. In addition, [OneChicago] *the Exchange* reserves the right to rebalance quarterly at its discretion.

[(n)] (N) The MicroSector futures products will be AM settled.

[(o)] (O) The initial indexes underlying MicroSector futures products will be created only for industry groups that have five or more qualifying securities.

[VI] (b) Maintenance standards for a MicroSector futures product based on an index composed of two or more securities.

[A.] [OneChicago] *The Exchange* will not open for trading MicroSector futures products that are cash settled based on an index composed of two or more securities with a new delivery month unless the underlying index:

[(i)] (1) Meets the definition of a narrow-based security index in Section 1a(25) of the Commodity Exchange Act and Section 3(a)(55) of the Exchange Act; and

[(ii)] (2) Meets the following requirements:

[(a)] (A) All of its component securities must be registered under Section 12 of the Exchange Act;

[(b)] (B) Subject to [(d) and (k)] (D) and (K) below, component securities that account for at least 90 per cent of the total index weight and at least 80 per cent of the total number of component securities in the index must meet the requirements for listing a single-security future, as set forth in [Section I] *Rule 906(a)*.

[(c)] (C) Each component security in the index must have a market capitalization of at least \$75 million, except that each of the lowest weighted component securities that in the aggregate account for no more than 10 per cent of the weight of the index may have a market capitalization of only \$50 million.

[(d)] (D) The average daily trading volume in each of the preceding six months for each component security in the index must be at least 22,750 shares or receipts, except that each of the lowest weighted component securities in the index that in the aggregate account for no more than 10 per cent of the weight of the index may have an average daily trading volume of at least 18,200 shares for each of the last six months

[(e)] (E) Each component security in the index must be [(1)] (i) listed on an Exchange or traded through the facilities of an Association and [(2)] (ii) reported as an NMS security.

[(f)] (F) The current underlying index value must be reported at least once every 15 seconds during the time the security futures product is traded on [OneChicago] *the Exchange*.

[(g)] (G) An approximately equal dollar weighted index underlying a MicroSector future must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for 50 per cent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in

the index. Reconstitution and rebalancing are also mandatory if the number of component securities in the index is greater than five at the time of rebalancing. In addition, [OneChicago] *the Exchange* reserves the right to rebalance quarterly at its discretion.

[(h)] (H) The total number of component securities in the index must not increase or decrease by more than 33-1/3% from the number of component securities in the index at the time of its initial listing.

[(i)] (I) [(1)] (i) *The Exchange* [OneChicago] must have in place an effective surveillance sharing agreement with the primary exchange in the home country where the stock underlying each component ADR is traded;

[(2)] (ii) The combined trading volume of each component ADR and other related ADRs and securities in the U.S. ADR market, or in markets with which [OneChicago] *the Exchange* has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least 50 per cent of the combined worldwide trading volume in the ADR, the security underlying the ADR, other classes of common stock related to the underlying security, and ADRs overlying such other stock over the three-month period preceding the dates of selection of the ADR for futures trading ("Selection Date");

[(3)] (iii) [(a)] (I) The combined trading volume of the ADR and other related ADRs and securities in the U.S. ADR market, and in markets with which [OneChicago] *the Exchange* has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least 20 per cent of the combined worldwide trading volume in the ADR and in other related ADRs and securities over the three-month period preceding the Selection Date;

[(b)] (II) The average daily trading volume for the ADR in the U.S. markets over the three-month period preceding the Selection Date is at least 100,000 receipts; and

[(c)] (III) The daily trading volume for the ADR is at least 60,000 receipts in the U.S. markets on a majority of the trading days for the three-month period preceding the Selection Date;

[(4)] (iv) The Securities and Exchange Commission and Commodity Futures Trading Commission have otherwise authorized the listing, or

[(5)] (v) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements must not represent more than 20 per cent of the weight of the index.

[B.] (2) If the foregoing maintenance standards are not satisfied prior to opening a MicroSector futures product with a new delivery month, [OneChicago] *the Exchange* will either (i) replace the component security or securities that fail to meet the maintenance standards with a security or securities that qualify under the initial listing standards for MicroSector futures products set forth in [Section V] *paragraph (a) of this Rule*, or (ii) receive the approval of the Securities and Exchange Commission and the Commodity Futures Trading Commission.

* * * * *

1002. Contract Specifications

* * * * *

(i)(1) No Change
 (2) Final Settlement Price. (A) No Change
 (B) Notwithstanding subparagraph (2)(A) of this Rule, if an opening price for one or more securities underlying a Stock Index Future is not readily available, [the Chief Executive Officer of the Exchange or his designee for such purpose (referred to hereafter in this Rule 1002(i) as the "Designated Officer")] *the Exchange* will determine whether the security or securities are likely to open within a reasonable time.

(i) If the [Designated Officer] *Exchange* determines that one or more component securities are not likely to open within a reasonable time, then for the component security or securities which the [Designated Officer] *Exchange* determined were not likely to open within a reasonable time, the last trading price of the underlying security or securities during the most recent regular trading session for such security or securities will be used to calculate the special opening quotation.

(ii) If the [Designated Officer] *Exchange* determines that the security or securities are likely to open within a reasonable time, then for the component security or securities which the [Designated Officer] *Exchange* determined were likely to open within a reasonable time, the next available opening price of such security or securities will be used to calculate the special opening quotation.

(C) No Change

(D) No Change

* * * * *

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 Exchange 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 these 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 aspects of such statements.

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

1. Purpose

OneChicago proposes to amend its Eligibility and Maintenance Criteria for Security Futures Products ("Listing Standards") by incorporating them into the rules of the Exchange, deleting all references to "physically settled" in the Listing Standards pertaining to NBIs, permitting futures on modified equal-dollar weighted and share-weighted indexes, amending provisions related to the rebalancing of various NBIs, requiring AM settlement for cash settled security futures, and other conforming changes. The proposed rule change would also amend OneChicago Rule 1002(i)(2)(B) regarding the determination of when an opening price for one or more securities underlying a futures on an NBI ("Stock Index Futures") is not available to determine the final settlement price of the Stock Index Future.

The proposed rule change would amend the numbering of the Listing Standards to incorporate them into the rules of the Exchange. The Listing Standards pertaining to futures on a single security would be incorporated without changes (other than numbering) into new OneChicago Rule 906. The Listing Standards pertaining to NBIs would be incorporated into new OneChicago Rule 1006, and the Listing Standards for MicroSectors would be new OneChicago Rule 1007.

The proposed rule change would delete all references to "physically settled" NBIs, making OneChicago Rules 1006(a) and (b) generic as to the type of settlement process. Thus, the Listing Standards in OneChicago Rule 1006 would apply to cash settled and physically settled NBI contracts.⁵ This

⁵ All futures on NBIs would be subject to the applicable position limits in OneChicago Rules 414 and 1002(e). The position limit for each cash settled future on an NBI would be calculated according to the Market Cap Position Limit or SSF Position Limit formula in OneChicago Rule 1002(e)(2). The position limit for physically settled futures on NBIs would be established by the Exchange in conformance with CFTC Regulation 41.25 as

proposed change is consistent with the listing standards for options on NBIs.⁶

The proposed rule change would add share-weighted and modified equal-dollar weighted to the list of permissible indexes. New provisions would also be added to define modified equal-dollar weighted and share-weighted indexes. These provisions are consistent with options listing standards previously approved by the Commission.⁷ A modified equal-dollar weighted index is designed to be a fair measurement of a particular industry or sector but without assigning an excessive weight to one or more index component(s) that have a large market capitalization relative to other index components. In a modified equal-dollar weighted index, each underlying component security represents a pre-determined weighting percentage of the entire index. Each security in the index is assigned a weight that takes into account the relative market capitalization of the securities comprising the index.

A share-weighted index is calculated by multiplying the price of the component security by an adjustment factor. Adjustment factors are chosen to reflect the investment objective deemed appropriate by the designer of the index and would be published by the Exchange as part of the contract specifications. The value of the index is calculated by adding the weight of each component security and dividing the total by an index divisor, calculated to yield a benchmark index level as of a particular date. A share-weighted index is not adjusted to reflect changes in the number of outstanding shares of its components.

New provisions would also be added regarding rebalancing of these indexes. Under the proposed rule change, a modified equal-dollar weighted index must be rebalanced quarterly and a share-weighted index would not be rebalanced. The proposed rule change would also amend the rebalancing language pertaining to approximately equal dollar-weighted index. Under the proposed rule change, an approximately equal dollar-weighted index would be required to be rebalanced annually on December 31 of each year if the notional value of the largest component is at least twice the notional value of the smallest component for 50 percent or more of the trading days in the three months prior to December 31 of each year. The

required in OneChicago Rule 414(a). See 17 CFR 41.25.

⁶ See Chicago Board Options Exchange ("CBOE") Rules 24.2(d) and (e).

⁷ Securities Exchange Act Release No. 49932 (June 28, 2004), 69 FR 40994 (July 7, 2004) (SR\CBOE-2002-24).

Exchange would retain the right to rebalance quarterly at its discretion. This rebalancing requirement was adopted by the Exchange for MicroSector futures.⁸

The proposed rule change would also permit the Exchange to rebalance an index on an interim basis if there are extraordinary changes in the relative values of the component securities. To the extent investors with open position must rely upon the continuity of the security futures contract on the index, the proposed rule change would leave outstanding contracts unaffected by the rebalancing.

Consistent with OneChicago Rule 1002(i), the proposed rule change adds a provision that requires AM settlement for cash settled security futures on NBIs.

Under the proposed rule change, OneChicago Rule 1002(i)(2)(B), which relates to the final settlement price of a Stock Index Future, would be amended by permitting the Exchange to make a determination when an opening price for one or more securities underlying a Stock Index Future is not readily available. Under the current OneChicago Rule, only the Chief Executive Officer of the Exchange or his designee, referred to as the Designated Officer, may make the determination whether the security or securities are likely to open within a reasonable time. The Exchange believes that it is more appropriate and provides more flexibility to state that the Exchange would make this determination.

CFMA Listing Standard Requirements for Security Futures. Section 6(h) of the Act⁹ requires that certain standards be met in order for an exchange to trade SFPs. OneChicago previously established that it met those standards in the proposed rule change submitted to the Commission.¹⁰ OneChicago also established that it met those standards in the proposed rule change it submitted to the Commission regarding listing standards for MicroSectors.¹¹ The Exchange believes that the proposed

rule change OneChicago submits at this time merely amends the current OneChicago Listing Standards and does not alter its ability to meet the standards required under section 6(h) of the Act.¹²

Section 6(h)(3)(A) of the Act¹³ requires that each security underlying an SFP must be registered pursuant to section 12 of the Act.¹⁴ OneChicago believes that the Listing Standards continue to meet this requirement.

Section 6(h)(3)(B) of the Act¹⁵ requires the market on which a physically settled SFP is traded have arrangements in place with a registered clearing agency for the payment and delivery of the securities underlying the SFP. The proposed rule change would not make amendments related to this requirement. OneChicago has entered into arrangements with both The Options Clearing Corporation (“OCC”) and the clearinghouse of the Chicago Mercantile Exchange Inc. (“CME”), both of which are registered clearing agencies, relating to the clearing of SFPs. By virtue of the CME clearinghouse being an associated clearinghouse of OCC, and OCC having in place arrangements with the National Securities Clearing Corporation for the delivery of securities underlying physically settled SFPs, One Chicago believes that it meets the requirements of section 6(h)(3)(B) of the Act.¹⁶

Section 6(h)(3)(C) of the Act¹⁷ requires Listing Standards for security futures be no less restrictive than comparable Listing Standards for options traded on a national securities exchange. The Commission has approved a similar rule for CBOE.¹⁸ Since CBOE has comparable listing standards, OneChicago believes that the proposed rule change meets the requirement of section 6(h)(3)(C) of the Act.¹⁹

Section 6(h)(3)(D) of the Act²⁰ requires that all SFPs be based on common stock and such other equity securities as the Commission and CFTC have jointly determined is appropriate. The Commission and CFTC have jointly permitted that SFPs be based on

depository shares,²¹ a share of an exchange traded fund, a trust issued receipt, or a share of a registered closed-end management investment company.²² The proposed rule change would not amend the provisions in the Listing Standards pertaining to this requirement. Therefore, OneChicago believes that it continues to meet this requirement.

Section 6(h)(3)(E) of the Act²³ requires that each SFP be cleared by a clearing agency that has in place provisions for linked and coordinated clearing with other clearing agencies that clear SFPs, which permits an SFP to be purchased on one market and offset on another market that trades such product. OneChicago notes that pursuant to section 6(h)(7) of the Act,²⁴ the foregoing requirement is deferred until the “compliance date” (as defined therein). OneChicago expects that both OCC and CME clearinghouses would have in place procedures complying with the requirements of clause (E) after such “compliance date.” Therefore, OneChicago believes that it continues to meet this requirement.

Section 6(h)(3)(F) of the Act²⁵ requires that broker-dealers must be subject to suitability rules comparable to those of a national securities association to effect transactions in SFPs. OneChicago believes it continues to satisfy this requirement through OneChicago Rule 605 which requires members to comply with the sales practice rules of the National Futures Association (“NFA”) or the National Association of Securities Dealers, Inc. (“NASD”), which include suitability rules.

Section 6(h)(3)(G) of the Act²⁶ requires that SFPs be subject to the prohibition against dual trading in Section 4j of CEA²⁷ and CFTC regulations. Pursuant to section 4j of CEA,²⁸ CFTC promulgated Regulation 41.27,²⁹ which states that an electronic futures exchange is subject to the dual trading rule if the exchange provides market participants with a time or place advantage or the ability to override a predetermined algorithm. OneChicago market participants have no such advantage or ability. Therefore, OneChicago believes that the dual

⁸ See Section V.A.ii.m of the Listing Standards for MicroSectors Cash Settled Narrow-Based Index Futures. In addition to rebalancing, the NBIs may be adjusted due to corporate events. Attached as Exhibit A is the Corporate Action Summary A for Approximately Equal Dollar-Weighted Indexes and Exhibit B is the Corporate Action Summary B for Share-Weighted Indexes. Depending on the index design, the Corporate Action Summary A or B may be modified. The Exchange would notify the public of the Corporate Actions that would be taken in regards to an index before the index begins trading.

⁹ 15 U.S.C. 78f(h).

¹⁰ Securities Exchange Act Release No. 47114 (December 31, 2002), 68 FR 837 (January 7, 2003) (SR-OC-2002-24).

¹¹ Securities Exchange Act Release No. 48191 (July 17, 2003), 68 FR 43555 (July 23, 2003) (SR-OC-2003-06).

¹² 15 U.S.C. 78f(h).

¹³ 15 U.S.C. 78f(h)(3)(A).

¹⁴ 15 U.S.C. 781.

¹⁵ 15 U.S.C. 78f(h)(3)(B).

¹⁶ *Id.*

The Exchange clarified its belief that the proposed rule change meets the requirement of Section 6(h)(3)(B) of the Act. Telephone conversation between Madge Piro, Counsel for OneChicago, and Jennifer Dodd, Special Counsel, Division, Commission, July 28, 2005.

¹⁷ 15 U.S.C. 78f(h)(3)(C).

¹⁸ See note 6 *supra*.

¹⁹ 15 U.S.C. 78f(h)(3)(C).

²⁰ 15 U.S.C. 78f(h)(3)(D).

²¹ See Securities Exchange Act Release No. 44725 (August 20, 2001), 67 FR 42670 (June 25, 2002).

²² See Securities Exchange Act Release No. 46090 (June 19, 2002), 67 FR 42670 (June 25, 2002).

²³ 15 U.S.C. 78f(h)(3)(E).

²⁴ 15 U.S.C. 78f(h)(7).

²⁵ 15 U.S.C. 78f(h)(3)(F).

²⁶ 15 U.S.C. 78f(h)(3)(G).

²⁷ 7 U.S.C. 4j.

²⁸ *Id.*

²⁹ 17 CFR 41.27.

trading rule does not apply to OneChicago.

Section 6(h)(3)(H) of the Act³⁰ provides that SFPs must not be readily susceptible to manipulation of the price of the SFP, the price of the underlying security, the price of the option on such security, or options on a group or index including such securities. Nothing in the proposed rule change would alter OneChicago's fulfillment of this requirement. Therefore, OneChicago believes that it continues to meet this requirement. OneChicago Rule 603 specifically prohibits market manipulation, and OneChicago Rule 604 prohibits OneChicago members or access persons from violating applicable laws.

Section 6(h)(3)(I)³¹ of the Act requires that procedures be in place for coordinated surveillance among the markets on which an SFP is traded, any market on which any security underlying an SFP is traded, and other markets on which any related security is traded to detect manipulation and insider trading. OneChicago believes that it continues to meet this requirement through its affiliation with the Intermarket Surveillance Group, under which it has an agreement to share market surveillance and regulatory information with other members of the group, which includes all of the predominant U.S. securities exchanges. OneChicago is also a member of the Joint Audit Committee, in which the futures self-regulatory organizations have an agreement to share information for regulatory purposes. Therefore, OneChicago believes it continues to meet this requirement.

Section 6(h)(3)(J) of the Act³² requires that an exchange have audit trails that are necessary or appropriate to facilitate the coordinated surveillance required under section 6(h)(3)(I) of the Act.³³ OneChicago believes that it continues to meet this requirement. The audit trail capability provided by CBOE*direct*[®], the trade matching engine used by OneChicago, creates and maintains an electronic transaction history database that contains information with respect to all orders, whether executed or not, and resulting transactions on the Exchange. This applies to orders entered through CBOE*direct*[®] terminals as well as to orders routed to CBOE*direct*[®] through CME's Globex[®] system. The information recorded with respect to each order includes: time received (by

CBOE*direct*[®] or Globex[®]), terms of the order, order type, instrument and contract month, price quantity, account type, account designation, user code, and clearing firm.

OneChicago's electronic audit trail consists of data recorded by CBOE*direct*[®] and Globex[®], and OneChicago has full access to all such data. Information logged by CBOE*direct*[®], including orders received through CBOE*direct*[®] terminals, are archived and provided to OneChicago each day. Orders received through Globex[®] are archived and maintained at CME. Together, these data sets enable OneChicago to trace each order back to the clearing firm by or through which it was submitted. If any question or issue arises as to the source of an order prior to submission by or through a clearing firm, OneChicago would request that the clearing firm provide an electronic or other record of the order.

For orders that cannot be immediately entered into either CBOE*direct*[®] and Globex[®], and therefore would not be recorded electronically at the time they are placed, OneChicago Rule 403(b) requires that the Clearing Member or, if applicable, the Exchange Member or the Access Person receiving such order must prepare an order form in a non-alterable written medium, which must be time-stamped when received and include the account designation, date, and other required information (*i.e.*, order terms, order type, instrument and contract month, price, and quantity). Each such form must be retained for at least five years from the time it was prepared. In addition, OneChicago Rule 501 establishes a general recordkeeping requirement pursuant to which each Clearing Member, Exchange Member, and Access Person must keep all books and records as required to be kept by it pursuant to CEA, CFTC regulations, the Act, regulations under the Act, and OneChicago Rules. OneChicago Rule 501 also requires that such books and records be made available to the Exchange upon request. Current CFTC regulations require books and records to be maintained for a period of five years. OneChicago believes that its audit trail continues to meet the requirement of section 6(h)(3)(J) of the Act.³⁴

Block trades are entered in CBOE*direct*[®] by OneChicago's operations management after they are reported by designated individuals at the Clearing Member for the selling party. Similar procedures apply to the exchange of futures for physical ("EFP") transactions. Since block trades and EFP transactions involve orders that cannot

be immediately entered into either CBOE's or CME's systems, the Clearing Members or, if applicable, Exchange Members or Access Persons involved must comply with the relevant OneChicago policy and procedures regarding these transactions.

Section 6(h)(3)(K) of the Act³⁵ requires that a market on which an SFP is traded have in place procedures to coordinate trading halts between such market and any market on which any security underlying an SFP is traded and other markets on which any related security is traded. OneChicago believes that it continues to meet this requirement through OneChicago Rule 419, which requires that trading in a security future be halted at all times that a regulatory halt has been instituted for the relevant underlying security or securities.

Section 6(h)(3)(L) of the Act³⁶ requires that the margin requirements for an SFP comply with the regulations prescribed pursuant to section 7(c)(2)(B) of the Act.³⁷ OneChicago believes that its current Rule 515 continues to fulfill this requirement.³⁸

2. Statutory Basis

OneChicago believes that the proposed rule change is consistent with section 6(b)(5) of the Act³⁹ in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. OneChicago further believes that the proposed changes would promote competition and are designed to protect investors and the public interest by permitting investors to use new, competitive, and innovative products for hedging and speculative purposes.

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

OneChicago believes that the proposed rule change would not unduly burden competition. In fact, OneChicago believes that the proposed rule change would promote competition by permitting OneChicago to list a broader

³⁰ 15 U.S.C. 78f(h)(3)(H).

³¹ 15 U.S.C. 78f(h)(3)(I).

³² 15 U.S.C. 78g(c)(2)(B).

³³ Securities Exchange Act Release No. 46787 (November 7, 2002), 67 FR 69059 (November 14, 2002) (SR-OC-2002-01); Securities Exchange Act Release No. 47810 (May 7, 2003), 68 FR 26369 (May 15, 2003) (SR-OC-2003-05); Securities Exchange Act Release No. 50115 (July 29, 2004), 69 FR 48261 (August 9, 2004) (SR-OC-2004-01).

³⁴ 15 U.S.C. 78f(b)(5).

³⁵ 15 U.S.C. 78f(h)(3)(H).

³⁶ 15 U.S.C. 78f(h)(3)(I).

³⁷ 15 U.S.C. 78f(h)(3)(J).

³⁸ 15 U.S.C. 78f(h)(3)(I).

³⁹ 15 U.S.C. 78f(h)(3)(J).

array of futures, without jeopardizing investor protection.

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

Comments on the proposed rule change have not been solicited nor received.

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

The proposed rule change has become effective on July 20, 2005. Within 60 days of the date of effectiveness of the proposed rule change, the Commission, after consultation with the CFTC, may summarily abrogate the proposed rule change and require that the proposed rule change be refiled in accordance with the provisions of section 19(b)(1) of the Act.⁴⁰

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. Please include File Number SR-OC-2005-02 on the subject line.

Paper Comments

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE., Washington, DC 20549-9303. All submissions should refer to File Number SR-OC-2005-02. 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. Copies of such filing also will be available for inspection and copying at the principal office of OneChicago. 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-OC-2005-02 and should be submitted on or before August 26, 2005.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴¹

Jill M. Peterson,
Assistant Secretary.

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⁴¹ 17 CFR 200.30-3(a)(15).

Corporate Action Summary A for Approximately Equal Dollar Weighted Indexes

Type		Adjustments		Notes
Action	Company	Close Price/ Action	Share Lot ⁽¹⁾	
Special Cash Dividend	Component of Index	Adj. Close = Prev. Close - Dividend	Adj. Share lot = Prev. Share lot + (Prev. Share lot * Div.)/Adj. Close	Companies contribution to index not affected by Special dividend
Stock Split or Dividend	Component of Index	Adj. Close = Prev. Close / Adjustment Factor	Adj. Round Lot = Prev. Share Lot * Adjustment Factor	Adjustment Factor = # of New Shares for 1 Old Share
Spin Off	Component of Index (A)	Adj. Close = Close - (Ratio * Spun off Company's Price)		Ratio = # of shares of spun off company received for every share of parent company owned. Spun off company will be added at a weight such that the index contribution of the two companies after the event is equal to the index contribution of the parent prior to the event.
	Spun Off Company (B)	ADDED	Share lot = ((Share lot A * Prev. Close A) - (Share lot A * Adj. Close A)) / Close B	
Two Components Merge in an All Stock, Cash or Combination Deal	Remaining Companies (A)		Adj. Share Lot = Share Lot + ((B's Close * B's Share Lot) / # of remaining components) / A's Close	All remaining companies will be adjusted using the formula to the left. Their shares will increase based on their price so as to distribute the weight of the acquired company evenly.
	Acquired Company (B)	DELETED		
A Non-Component Takes Over a Component	Acquirer (A)	ADDED	Share Lot = (B's Round Lot * B's Close) / A's Close	The acquiring company will replace the acquired company. Its share lot will be set to contribute the same amount to the index as the acquired company contributed prior to the acquisition.
	Acquired Component of Index (B)	DELETED		
Rights Issue	Component of Index	Adj. Close = (Close + (Ratio * Subscription Price)) / (1 + Ratio)	Adj. Share Lot = (Close * Share Lot) / Adj. Close	Ratio = # of rights received for 1 share of A.
Extraordinary Removal	(1) Remaining Securities (A) or (2) Replacement Company (A)	ADDED if (2)	If (1): Adj. Share Lot (A) = Prev. Share lot (A) + (B's share lot * B's Close) / (# of Remaining Components * A's Close) If (2): Share lot A = (B's Share lot * B's Close) / A's Close	Company B may be removed for any of the following reasons: Bankruptcy proceedings, Financial distress, Delisting from a primary exchange (NYSE, Nasdaq, Amex), or Illiquidity (10 consecutive no trade days). The Exchange would either: (1) Divide B's index contribution evenly between remaining components or (2) if Replacement Company A is added, Replacement A would be the highest ranked (as of the most recent selection date) of the remaining securities in the industry group which qualify for inclusion.
	Component of Index (B)	DELETED		The method to be utilized will be described in the index's contract specification.

(1) Share lots will be rounded to the nearest hundred at rebalance. Odd lots may exist between rebalances.

Corporate Action Summary B for Share-Weighted Indexes

Type		Adjustments		Notes
Action	Company	Component Price Change	Adjustment Factor Change	
Special Cash Dividend	Component of Index	New Close = Prev. Close - Dividend	New Adj. Factor = (Prev. Adj. Factor * Prev. Close)/New Close	
Stock Split or Dividend	Component of Index	New Close = Prev. Close / Split Ratio	New Adj. Factor = Prev. Adj. Factor * Split Ratio	For example, in the case of a 2-for-1 split, the Split Ratio would be 2. In the case of a 5% stock dividend, the split ratio would be 1.05
Spin Off	Component of Index (A)	New Close = Prev. Close - (Price Adjstment due value of spun-off company)	New Adj. Factor = (Prev. Adj. Factor * Prev. Close) / New Close	Price Adjustment due to value of spun-off company = (Market capitalization of parent company - market capitalization of spun-off company)/number of outstanding shares of the parent company. Spun-off Company is not added.
Two Components Merge in an All Stock, Cash or Combination Deal	Acquiring Company		New Adj. Factor = Prev. Adj. Factor + ((Acquired Company's Close * Acquired Company's Adj. Factor)/Acquiring Company's Close)	The weight of the Acquired Company is added to the weight of the Acquiring Company.
	Acquired Company	DELETED		
A Non-Component Takes Over a Component	Non-Component Acquiring Company	ADDED	New Adj. Factor = ((Acquired Company's Close * Acquired Company's Adj. Factor)/Acquiring Company's Close)	Non-Component Acquiring Company added to index at Acquired Company's weight.
	Acquired Component of Index	DELETED		
Rights Offering	Component of Index	New Close = Prev. Close - Price Adjustment due to value of offering	New Adj. Factor = (Prev. Adj. Factor * Prev. Close)/New Close	Price Adjustment due to value of rights offering = (market capitalization of parent company - market capitalization of rights)/number of outstanding shares of the parent company.
Extraordinary Removal	Index Component	DELETED	The Adjustment Factors for each remaining component will be increased to reflect an equal distribution of the weight of a deleted component	An Index Component will be removed for bankruptcy proceedings, financial distress, or delisting from a national market (NYSE, Nasdaq, Amex)