

Act,<sup>8</sup> which requires among other things, that the Exchange's rules be designed to promote just and equitable principles of trade, to facilitate transactions in securities, 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. The Commission notes that it has previously approved the listing and trading of other index-linked securities that have a structure similar to the Notes.<sup>9</sup>

The Commission further believes that the proposal is consistent with section 11A(a)(1)(C)(iii) of the Exchange Act,<sup>10</sup> which sets forth Congress' finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers, and investors of information with respect to quotations for and transactions in securities. Quotations for and last-sale information regarding the Notes will be disseminated through the Consolidated Quotation System. The index value is calculated and disseminated daily and may be verified by a number of independent sources.<sup>11</sup> Furthermore, financial information regarding the Issuer would be publicly available, thus allowing investors to confirm the creditworthiness of the Issuer. The Commission believes that Amex's proposal is reasonably designed to promote transparency in the pricing of the Notes, and to prevent trading when a reasonable degree of transparency cannot be assured. The proposal also appears reasonably designed to prevent conveyance of inside information from the Index Calculator to market participants who may trade the Notes.

In support of this proposal, the Exchange has made the following representations:

(1) Amex has received a representation from HSCI Services Limited, the Index Calculator, that: (a)

Appropriate firewalls exist to ensure independence of operations among different units within the Hang Seng Group; and (b) policies and procedures are in place containing, among other things, insider trading prohibitions, designed to prevent conflicts of interest.

(2) Amex would distribute a circular to its membership providing guidance with regard to member firm compliance responsibilities (including suitability recommendations) when handling transactions in the Notes and highlighting the special risks and characteristics of the Notes. In addition, the Issuer would deliver a prospectus in connection with the initial sale of the Notes.

(3) Amex would rely on its existing surveillance procedures governing index-linked securities, which are adequate to properly monitor trading in the Notes.

(4) Amex prohibits the initial and/or continued listing of any security that is not in compliance with Rule 10A-3 under the Act.<sup>12</sup>

This order is conditioned on Amex's adherence to these representations.

In addition, Amex has represented that it would file a proposed rule change pursuant to Rule 19b-4 under the Act if: (1) HSCI substantially changes either the index component selection methodology or the weighting methodology; (2) a new component is added to the Index (or pricing information is used for a new or existing component) that constitutes more than 10% of the weight of the Index with whose principal trading market the Exchange does not have a comprehensive surveillance-sharing agreement; or (3) a successor or substitute index is used in connection with the Notes. The Commission believes that each of these circumstances represents material changes to the characteristics of the Index described herein and on which the Commission is basing its findings. Under these circumstances, the Exchange could not rely on this approval to list and trade the Notes.

*It is therefore ordered*, pursuant to section 19(b)(2) of the Act, that the proposed rule change (SR-Amex-2006-90), as modified by Amendment No. 2 be, and it hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>13</sup>

**Nancy M. Morris,**

*Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-55246; File No. SR-CBOE-2006-62]

### Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Approval of a Proposed Rule Change as Modified by Amendment No. 1 Thereto Relating to Its Index Obvious Error Rule

February 6, 2007.

#### I. Introduction

On July 7, 2006, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend CBOE Rule 24.16, which is the Exchange's rule applicable to the nullification and adjustment of transactions in index options, options on exchange-traded funds ("ETFs"), and options on HOLDING Company Depository Receipts ("HOLDRS"). On October 30, 2006, the CBOE submitted Amendment No. 1 to the proposed rule change. The proposed rule change, as amended, was published for comment in the **Federal Register** on December 20, 2006.<sup>3</sup> The Commission received no comment letters on the proposal. This order approves the proposed rule change as modified by Amendment No. 1.

#### II. Description of the Proposed Rule Change

The Exchange is proposing to amend Rule 24.16 in order to: (i) re-define what constitutes an "obvious price error;" (ii) provide for a Market-Maker to Market-Maker adjustment of obvious price errors (currently such erroneous transactions are subject to nullification); (iii) eliminate the nullification and adjustments provisions for erroneous quantity errors; and (iv) make various non-substantive changes to the text of Rule 24.16.

Specifically, an "obvious price error" would be deemed to have occurred for series trading with normal bid-ask differentials as established in CBOE Rule 8.7(b)(iv) when the execution price of a transaction is above or below the "fair market value"<sup>4</sup> of the option by at

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

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

<sup>3</sup> Securities Exchange Act Release No. 54926 (December 13, 2006), 71 FR 76393.

<sup>4</sup> Fair market value is defined in Rule 24.16 as the midpoint of the national best bid and national best

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

<sup>9</sup> See Securities Exchange Act Release No. 51563 (April 15, 2005), 70 FR 21257 (April 25, 2005) (SR-Amex-2005-01) (approving generic listing standards for index-linked securities); Securities Exchange Act Release No. 51227 (February 18, 2005), 70 FR 9395 (February 25, 2005) (SR-Amex-2005-010) (approving the listing and trading of notes linked to the performance of the Nikkei 225 Index); and Securities Exchange Act Release No. 50016 (July 14, 2004), 69 FR 43639 (July 21, 2004) (SR-Amex-2004-43) (approving the listing and trading of notes linked to the performance of the Nikkei 225 Index).

<sup>10</sup> 15 U.S.C. 78k-1(a)(1)(C)(iii).

<sup>11</sup> See e-mail dated January 30, 2007 from Sudhir C. Bhattacharyya, Assistant General Counsel, Amex, to Mitra Mehr, Special Counsel, Division of Market Regulation, Commission.

<sup>12</sup> See 17 CFR 240.10A-3(c)(1).

<sup>13</sup> 17 CFR 200.30-3(a)(12).

least: \$0.125 for options trading under \$2; \$0.20 for options trading at or above \$2 and up to \$5; \$0.25 for options trading above \$5 and up to \$10; \$0.40 for options trading above \$10 and up to \$20; and \$0.50 for options trading above \$20. For series trading with bid-ask differentials that are a multiple of the widths established in Rule 8.7(b)(iv), the prescribed error amount would have the same multiple applied to the amounts prescribed above.

Second, the proposal revises the obvious price error provision as it relates to the handling of transactions involving only CBOE Market-Makers. Under the current rule, such erroneous price transactions are nullified. Under the proposal, CBOE-Market-Maker-to-CBOE-Market-Maker transactions would be subject to adjustment. In applying the proposed CBOE Market-Maker adjustment provision to index options and options on ETFs or HOLDRs, the adjustment price would be equal to the fair market value of the option minus the minimum error amount in the case of an erroneous sell transaction or the fair market value plus the minimum error amount in the case of an erroneous buy transaction. If the adjusted price is not in a multiple of the applicable minimum trading increment, the adjusted price would be rounded down (up) to the next price that is a multiple of the applicable minimum trading increment with respect to an erroneous sell (buy) transaction.

Third, the proposal would eliminate obvious quantity errors as a type of transaction that is subject to obvious error review. The elimination of this provision is consistent with the Exchange's current rule for equity options, which does not have an obvious error review for quantity errors.<sup>5</sup>

Lastly, the proposal would make various non-substantive changes to CBOE Rule 24.16, such as making cross-reference updates to correspond to the above-described revisions, changing the title of the rule to reflect its application to options on ETFs and HOLDRS (currently the title only references index options), clarifying that fair market value is to be determined by Exchange Trading Officials in accordance with the

offer for the series (across all exchanges trading the option). In multiply listed issues, if there are no quotes for comparison purposes, fair market value shall be determined by Trading Officials. For singly-listed issues and for transactions occurring as part of the Rapid Opening System ("ROS trades") or Hybrid Opening System ("HOSS"), the Exchange clarified in the proposed rule change that the fair market value shall be the midpoint of the first quote after the transaction(s) in question that does not reflect the erroneous transaction(s).

<sup>5</sup> See CBOE Rule 6.25(a).

provisions of the definition of fair market value, and making other technical changes.

### III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange<sup>6</sup> and, in particular, the requirements of Section 6(b) of the Act<sup>7</sup> and the rules and regulations thereunder. Specifically, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,<sup>8</sup> in that the proposal promotes just and equitable principles of trade, prevents fraudulent and manipulative acts, removes impediments to and perfects the mechanism of a free and open market and a national market system, and, in general, protects investors and the public interest.

The Commission considers that in most circumstances trades that are executed between parties should be honored. On rare occasions, the price of the executed trade indicates an "obvious error" may exist, suggesting that it is unrealistic to expect that the parties to the trade had come to a meeting of the minds regarding the terms of the transaction. In the Commission's view, the determination of whether an "obvious error" has occurred should be based on specific and objective criteria and subject to specific and objective procedures. The revised scale for identifying the minimum error amount for an obvious price error and the elimination of obvious quantity errors set out a clear and objective methodology for determining when an obvious error has occurred. The proposed amendments with respect to obvious error transactions involving only CBOE Market Makers also establish specific and objective criteria governing the adjustment of such trades. In addition, the technical conforming and clarifying changes made by the proposed rule change, including the clarification with respect to the role of Trading Officials, should help facilitate understanding and application of CBOE Rule 24.16. Therefore, the Commission believes that the proposed rule change is consistent with the Act.

<sup>6</sup> In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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

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

### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>9</sup> that the proposed rule change (SR-CBOE-2006-62), as modified by Amendment No. 1, be, and it hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>10</sup>

**Florence E. Harmon,**  
Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-55239; File No. SR-DTC-2006-15]

### Self-Regulatory Organizations; The Depository Trust Company; Order Granting Approval of a Proposed Rule Change Relating to the Canadian Link Service

February 5, 2007.

#### I. Introduction

On October 10, 2006, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-DTC-2006-15 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> Notice of the proposal was published in the **Federal Register** on December 8, 2006.<sup>2</sup> No comment letters were received. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

#### II. Description

The proposed rule change amends DTC's Rule 30, Canadian-Link Service, to allow certain Canadian-Link transactions to settle in U.S. dollars. DTC's Canadian-Link Service currently allows participants of DTC ("DTC Participants") to clear and settle two categories of securities transactions in Canadian dollars: (1) transactions with participants of The Canadian Depository for Securities Limited CDS ("CDS Participants") and (2) transactions with other DTC Participants. The Canadian-Link Service also allows DTC Participants to transfer Canadian dollar funds to CDS Participants through the facilities of CDS and to other DTC Participants through Canadian settlement banks acting for DTC and

<sup>9</sup> 15 U.S.C. 78s(b)(2).

<sup>10</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> Securities Exchange Act Release No. 54855, (December 1, 2006), 71 FR 71206.