

rule change operative upon filing with the Commission.

At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.¹⁶

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-BSE-2007-27 on the subject line.

Paper Comments

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-BSE-2007-27. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 100 F Street, NE., Washington, DC 20549, on official business days

between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of BSE. 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-BSE-2007-27 and should be submitted on or before July 31, 2007.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁷

Florence E. Harmon,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-55976; File No. SR-CBOE-2003-41]

Self-Regulatory Organizations; Chicago Board Options Exchange Incorporated; Order Granting Approval of Proposed Rule Change as Modified by Amendment No. 4 To List and Trade Options on Corporate Debt Securities

June 28, 2007.

I. Introduction

On September 22, 2003, the Chicago Board Options Exchange Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² a proposed rule change to list and trade options on corporate debt securities ("CDSOs"). On March 1, 2003, CBOE filed Amendment No. 1 to the proposed rule change. CBOE filed Amendment No. 2 to the proposed rule change on August 24, 2005. CBOE filed Amendment No. 3 to the proposed rule change on May 26, 2006. On June 13, 2006, the proposed rule change, as amended by Amendment Nos. 1, 2, and 3, was published in the **Federal Register**.³ CBOE filed Amendment No. 4 on July 14, 2006.⁴ The Commission received one comment letter on the proposal.⁵

On October 31, 2006, CBOE filed a response to the comment.⁶ This order approves the proposed rule change, as amended.

II. Description of the Proposed Rule Change

(a) Background

Over-the-counter ("OTC") transactions in corporate debt securities are publicly reported through the NASD's Trade Reporting and Compliance Engine ("TRACE") system. CBOE believes that the enhanced transparency created by TRACE has given rise to an OTC market in CDSOs, and that an exchange-traded alternative for such products may provide a useful risk management and trading vehicle for member firms and their customers.

CBOE believes that exchange-listed CDSOs would have three important advantages over similar options traded in the OTC market. First, as a result of greater standardization of contract terms, exchange-listed contracts should develop more liquidity. Second, counterparty credit risk would be mitigated because the contracts would be issued and guaranteed by The Options Clearing Corporation ("OCC"). Finally, the quotation and last-sale data provided by CBOE and its members would lead to more transparent markets. CBOE believes that offering CDSOs would create competition with the OTC market and expand the universe of listed products available to interested market participants.

(b) Listing Standards

The Exchange has proposed CBOE Rules 5.3.10 and 5.4.14 for the initial listing and continued maintenance standards, respectively, for CDSOs. The Exchange proposes that for initial listing, a CDSO must satisfy the following criteria:

- The original public sale of a corporate debt security on which options transactions will be effected on the Exchange shall be at least a \$250,000,000 principal amount.
- Trading volume (in all markets in which the underlying corporate debt security is traded) has been at least \$100,000,000 in notional value over the preceding six months.
- The corporate debt security has a minimum aggregate par value or "float" of \$200,000,000.

Association ("TBMA"), to Nancy M. Morris, Secretary, Commission, dated August 25, 2006 ("TBMA Letter").

⁶ See Letter from Angelo Evangelou, Assistant Secretary, CBOE, to Ronesha Butler, Special Counsel, Commission, dated October 25, 2006 ("Response").

¹⁶ The effective date of the original proposed rule is June 26, 2007. The effective date of Amendment No. 1 is June 27, 2007. For purposes of calculating the 60-day period within which the Commission may summarily abrogate the proposed rule change under Section 19(b)(3)(C) of the Act, the Commission considers the period to commence on June 27, 2007, the date on which the BSE submitted Amendment No. 1. See 15 U.S.C. 78s(b)(3)(C).

¹⁷ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 53935 (June 2, 2006), 71 FR 34174.

⁴ In Amendment No. 4, CBOE made minor technical changes to the proposed rule text.

⁵ See Letter from Mary C.M. Kuan, Vice President and Assistant General Counsel, The Bond Market

- The corporate debt security has at least 320 holders.
- The issuer of the corporate debt security or the issuer's parent, if the issuer is a wholly-owned subsidiary, has at least one class of common or preferred equity securities registered under Section 12(b) of the Act.
- The equity securities issued by the corporate debt security issuer are "covered securities" as defined under Section 18(b)(1)(A) of the Securities Act of 1933 ("1933 Act").
- The corporate debt security on which options transactions will be effected on the Exchange has a credit rating issued by Moody's Investors Service that is Caa or higher and a credit rating issued by Standard and Poor's that is CC or higher.
- The issuer of the corporate debt security has registered the offer and sale of such securities under the 1933 Act.
- The transfer agent of the corporate debt security is registered under Section 17A of the Act.
- The trust indenture for the corporate debt security is qualified under the Trust Indenture Act of 1939.

(c) Settlement

CDSOs will be physically settled, European-style options that may be exercised only on the last day of expiration. Trading in CDSOs ordinarily will cease on the business day (usually a Friday) preceding the expiration date and the trading hours will be 8:30 a.m. to 3:02 p.m. Chicago time. The expiration date will be the Saturday immediately following the third Friday of the expiration month. CBOE Rule 28.7 provides that there will be up to five expiration months, none further out than 15 months, but the Exchange can list additional options expiration further out than 15 months where a reasonably active secondary market exists.

The settlement process for CDSOs will be the same as the settlement process for equity options under CBOE rules, with the exception of the delivery process.⁷ Payment of a CDSO's exercise price will be accompanied by payment of accrued interest on the underlying corporate debt security from, but not including, the last interest payment date to, and including, the exercise settlement date, as specified in OCC rules. The Exchange will notify OCC of the accrued interest calculation methodology that applies to each

⁷ If the outstanding debt issuance amount of an underlying corporate debt security is insufficient to satisfy the delivery requirements under CBOE Rule 11.3, OCC rules provide for special settlement exercise procedures.

corporate debt security prior to the listing of the particular CDSO.

(d) Minimum Price Variation and Strike Price Intervals

The option premium will be quoted in points where each point equals \$1,000. The minimum tick will be 0.05 (\$50.00). Series with strike prices in, at, and out of the money initially will be listed (up to ten per month initially). In addition, CBOE proposes to limit the strike price intervals that can be used for CDSOs, which will be fixed at a percentage of principal amounts (based on a par quote basis of \$100) as follows:

- 0.5% (\$0.50) or greater, provided that the series to be listed is no more than 5% above or below the current market price of a corporate debt security reported on TRACE during TRACE system hours or effected on or through the facilities of a national securities exchange, as applicable, on the day prior to the day the series is first listed for trading;
- 1.0% (\$1.00) or greater, provided that the series to be listed is no more than 10% above or below the current market price of a corporate debt security reported on TRACE during TRACE system hours or effected on or through the facilities of a national securities exchange, as applicable, on the day prior to the day the series is first listed for trading; and
- 2.5% (\$2.50) or greater, provided that the series to be listed is greater than 10% above or below the current market price of a corporate debt security reported on TRACE during TRACE system hours or effected on or through facilities of a national securities exchange, as applicable, on the day prior to the day the series is first listed for trading.

These increments are designed to allow the Exchange flexibility to list options with strike increments at appropriate levels, while diminishing any potential adverse effect on the Exchange's quote capacity thresholds. CBOE believes that the operational capacity used to accommodate the trading of CDSOs on the Exchange will have a negligible effect on the total capacity used by the Exchange to trade its products on a daily basis. The Exchange has represented that it will delist a CDSO series for which there is no open interest.

(e) Position Limits

CBOE proposes to establish tiered position limits for CDSOs based on a policy to limit positions in such options to a quantity that, if exercised, would not exceed 10% of the total float of the underlying bond. CBOE believes the

10% level is sufficient to inhibit market manipulation or to mitigate other possible disruptions in the market. CBOE's lowest position limit for equity options is 13,500 contracts, which, if exercised, would represent approximately 19.28% of the minimum float of an equity security eligible to underlie a CBOE equity option (seven million shares).⁸ Moreover, CBOE's 13,500 equity option contract limit applies to those options having an underlying security that does not meet the requirements for a higher option contract limit. CBOE believes the 10% position limit for CDSOs, which is significantly less than that for equity options, is sufficiently high to account for the differences in liquidity between the equity and debt markets and would consist of the following tiers:

Float of underlying debt issue	Position limit for CDSO (contracts)
\$200,000,000–\$499,999,000	200
500,000,000–749,999,000	500
750,000,000–999,999,000	750
1,000,000,000–2,499,999,000 ..	1,000
2,500,000,000 and greater	2,500

If a person holds more than 10% of a particular corporate debt security, the amount held by such person would not be included in the "total float" for purposes of determining the applicable position (and exercise) limits.⁹

(f) Margin

The margin (both initial and maintenance) for writing uncovered puts or calls will be as follows:

- An option writer will be required to deposit and maintain 100% of the current market value of the option plus 10% of the aggregate contract value minus the amount, if any, by which the option is out of the money, subject to a minimum for calls equal to 100% of the current market value of the option plus 5% of the aggregate contract value for any options on corporate debt securities that are rated investment-grade.¹⁰
- For options on non-investment-grade¹¹ corporate debt securities, the margin requirement will be 100% of the

⁸ See CBOE Rule 4.11 (Position Limits).

⁹ For example, if a person holds 14% of the total outstanding issuance of a corporate debt security, the applicable position (and exercise) limits would be based only on the remaining 86% of the issuance that is not held by such person.

¹⁰ The definition of an investment-grade corporate debt security is set forth in CBOE Rule 12.3(a)(15). The definition mirrors the definition set forth in NASD rules pertaining to TRACE.

¹¹ The definition of a non-investment-grade corporate debt security is set forth in CBOE Rule 12.3(a)(16). The definition mirrors the definition set forth in the NASD rules pertaining to TRACE.

current market value of the option plus 15% of the aggregate contract value minus the amount, if any, by which the option is out of the money, subject to a minimum for calls equal to 100% of the current market value of the option plus 10% of the aggregate contract value.

- Writers of options on convertible corporate debt securities will be required to deposit and maintain 100% of the current market value of the option plus 20% of the aggregate contract value minus the amount, if any, by which the option is out of the money, subject to a minimum for calls equal to 100% of the current market value of the option plus 10% of the aggregate contract value.

- In the case of puts for each of investment-grade, non-investment-grade, and convertible corporate debt securities, the minimum margin required will be 100% of the current market value of the option plus 5%, 10%, and 10%, respectively, of the put exercise price.

This methodology incorporates the same formula that the Exchange applies to all other option classes in Chapter 12 of CBOE rules, but with percentages that consider the specific market factors pertaining to the debt rating and type of corporate debt security. For example, the Exchange requires a deposit of 100% of the current market value of the option plus a 20% initial/maintenance margin and a 10% minimum margin. The Exchange would apply these initial/maintenance margin and minimum margin requirements if a convertible debt security underlies a CDSO. If an investment-grade corporate debt security underlies an option, the Exchange would impose a 10% initial/maintenance margin and a 5% minimum margin on the CDSO position because an investment-grade corporate debt security generally experiences lower price movements and lower volatility levels than stocks. CBOE proposes a 15% initial/maintenance margin and a 5% minimum margin for CDSOs based on non-investment-grade corporate debt securities because these securities exhibit more price movements than investment-grade corporate debt securities. The Exchange believes that these margin levels are consistent with the Commission's Net Capital Rule¹² for the underlying corporate debt securities.

(g) Surveillance

CBOE will implement a surveillance plan to monitor trading in CDSOs. The surveillance plan will include, but not be limited to, monitoring for insider trading, mini-manipulation, manipulation, frontrunning, and

capping and pegging. The Exchange will also monitor the media for rating downgrades and other corporate actions to ensure the Exchange's maintenance standards are fulfilled, and monitor for any corporate actions that may influence the pricing of corporate debt securities and options thereon.

(h) Information Bulletin

CBOE will issue a circular to its members before the initiation of trading in CDSOs that will describe the special characteristics of CDSOs. This circular will highlight the exercise methodology of the series, explain the cash adjustment procedures, identify the new symbols for the CDSO series, and identify the initial expiration months and strike prices available for trading.

(i) Trading Halts

The Exchange proposes CBOE Rule 28.10 which would allow floor officials to consider the following factors, in addition to those set forth in CBOE Rule 6.3, in determining whether to halt trading in a CDSO:

- Whether TRACE is inoperative; and
- whether the issuer or trustee, as applicable under the agreements governing the underlying corporate debt security, provides notification to holders of the corporate debt security that the corporate debt security is to be redeemed in whole or part.

III. Summary of Comments and CBOE Response

The Commission received one comment on the proposal. The commenter, TBMA, generally supported the proposed rule change, but suggested modifying it in certain respects. TBMA noted that the initial principal amount for bonds underlying an option is typically \$500 million in the OTC market, and suggested that CBOE raise its threshold. CBOE responded that the \$250 million issue threshold gave the Exchange the flexibility to list options on smaller issues that CBOE believed were actively traded.

Furthermore, TBMA believed that the float and trading volume requirements may not be sufficiently high. TBMA also requested additional information on how the initial and ongoing trading volume and float would be determined by the Exchange. CBOE responded that the float and trading volume requirements for its CDSOs should not be significantly higher than for equities. Setting the listing criteria too high for CDSOs could prevent the listing of options on corporate debt securities where options could be listed on equities of the same issuer. CBOE also stated that it will determine the initial

\$200 million float by looking at public information submitted by investors who are required to report their holdings.

TBMA claimed that differences exist between CBOE's proposed margin requirements and other self-regulatory organizations ("SROs"). Specifically, TBMA notes the differences in the definition of "investment grade" and the range of products eligible for portfolio margining. CBOE, however, believed that its proposed margin levels are appropriate. CBOE asserted that the definition of investment grade is consistent with the definition of that term as used by other SROs, and that CBOE's definition is more comprehensive. With respect to the range of equity products available for portfolio margining, CBOE stated that it supports the inclusion of fixed income products within the portfolio margining regime and expects that CDSOs will be incorporated at a later stage. CBOE noted that it would consider amending its margin rules at that time.

TBMA requested information on how CBOE would exclude 10% holders in determining the total float amount. CBOE stated that the Exchange anticipates using Bloomberg's "HDS" function to obtain this information in a timely manner. CBOE added that the Exchange intends to implement monitoring procedures to identify corporate actions on an ongoing basis.

TBMA claimed that the expiration date of CBOE's CDSOs differed from the general practice of OTC options on corporate bonds, which typically expire on the 20th of the relevant month. TBMA believed that this difference could affect how CBOE's options were used to hedge OTC options. CBOE stated that final trading on third Fridays allows settlement on Saturdays and allows dovetailing of processing of equity and bond options. CBOE noted that, while the 20th of the month may be the standard settlement date for credit index derivatives, it is not clear that this settlement date has been adopted for the less active market for CDSOs. CBOE added that it would nevertheless consider amending its rule to adopt this standard at a later time.

TBMA suggested that CBOE work with the OCC to revise the Options Disclosure Document ("ODD") to accommodate CDSOs, and that the ODD be made available for review and comment before approval of the proposal. In order to accommodate the listing and trading of CDSOs, CBOE expects that the OCC would amend its By-Laws and Rules to reflect CDSOs, which would be subject to public

¹² 17 CFR 240.15c3-1.

comment.¹³ In addition, the Exchange believes that the OCC would seek to revise the ODD to incorporate CDSOs.¹⁴ Further, CBOE clarified that the Exchange is working with OCC to develop procedures to address actions including full and partial redemptions, conversions to equities, bankruptcies, conversion to new series, and other actions. According to CBOE, the OCC intends to use a major data vendor to determine the market value of the underlying corporate debt securities of CDSOs. The data vendor will view TRACE and several other price reporting services to derive a composite price for each underlying security on a daily basis.

IV. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.¹⁵ In particular, the Commission believes that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁶ which requires that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Commission believes that the listing rules proposed by CBOE for CDSOs are reasonable and consistent with the Act. The Commission notes that, for a CDSO to be listed, the underlying corporate debt security must, among other things, have substantial trading volume, initial principal amount, and outstanding float; the issuer of the corporate debt security must have at least one class of equity security registered under Section 12(b) of the Act; and such equity securities must satisfy the requirements for options trading on CBOE. These requirements are reasonably designed to facilitate investors' access to

information that may be necessary to price a CDSO appropriately.

The Commission believes that the proposed position limits and margin rules for CDSOs are reasonable and consistent with the Act. The proposed position limits reasonably balance the promotion of a free and open market for these securities with minimization of incentives for market manipulation and insider trading. The proposed margin rules are reasonably designed to deter a member or its customer from assuming an imprudent position in CDSOs.

In support of the proposed rule change, the Exchange has made the following representations:

1. The Exchange has sufficient operational capacity to accommodate the listing and trading of CDSOs.

2. The Exchange's surveillance procedures are adequate to properly monitor the trading of the CDSOs.

3. The Exchange will inform its members in an Information Circular of the special characteristics and risks associated with trading the CDSOs.

4. The Exchange will delist CDSO series for which there is no open interest.

This approval order is conditioned on the Exchange's adherence to these representations.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁷ that the proposed rule change (SR-CBOE-2003-41), as modified by Amendment No. 4, be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁸

Florence E. Harmon,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-56000; File No. SR-CBOE-2007-73]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of Proposed Rule Change To Assess, on a Retroactive Basis, Certain CBOE and CBSX Market Data Fees

July 2, 2007.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

(“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on June 28, 2007, the Chicago Board Options Exchange, Incorporated (“CBOE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been substantially prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend its Fees Schedule to assess, retroactive to April 1, 2007, fees relating to CBOE and CBOE Stock Exchange (“CBSX”) market data that were implemented on June 1, 2007. The text of the proposed rule change is available at CBOE, the Commission's Public Reference Room, and www.cboe.org/legal.

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

In its filing with the Commission, CBOE 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

On June 1, 2007, the Exchange implemented new fees relating to TickerXpress (“TX”), which is an Exchange service that supplies market data to Exchange market-makers trading on the Hybrid Trading System.³ Specifically, the Exchange increased the monthly fee for enhanced TX market data from \$200 per month to \$300 per month and adopted a fee of \$100 per TX user per month for use of TX software for the use and display of market data. The Exchange proposes to assess these fees for the period April 1, 2007 through

¹³ Telephone conversation between Jennifer L. Klebes, Senior Attorney, CBOE and Marc McKayle, Special Counsel, Division of Market Regulation, Commission, on June 28, 2007.

¹⁴ See also Exchange Act Rule 9b-1(b)(2)(i) which requires the relevant option market to file material changes to the ODD with the Commission, if the ODD without such changes would become inaccurate, incomplete, or misleading.

¹⁵ In approving this proposed rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁶ 15 U.S.C. 78s(b)(5).

¹⁷ 15 U.S.C. 78s(b)(2).

¹⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 55882 (June 8, 2007), 72 FR 32931 (June 14, 2007) (File No. SR-CBOE-2007-54).