SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57170; File No. SR-CBOE-2007-96)

January 18, 2008

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto to Amend the Quarterly Option Series Pilot Program to Permit the Listing of Additional Series

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 August 7, 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. On January 17, 2008, the Exchange filed Amendment No. 1 to the proposed rule change.[3] The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

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

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

In addition to the initial listed series, the proposal would permit the Exchange to list up to sixty (60) additional series per expiration month for each QOS in ETF options. Further, the proposal includes a delisting program to be undertaken by the Exchange in connection with QOS in ETFs. The text of the rule proposal is available on the Exchange's website (http://www.cboe.org/legal), at the Exchange's Office of the Secretary and at the Commission.

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

In its filing with the Commission, the 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

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

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[3] Amendment 1 replaced the original filing in its entirety.

the proposal would permit the Exchange to list up to sixty (60) additional series per expiration month for each QOS in ETF options.

Background

On July 7, 2006, the Exchange filed with the Commission a pilot program proposal to permit the listing and trading of QOS in options on indexes or options on ETFs that satisfy the applicable listing criteria under CBOE rules.[4] QOS trade based on calendar quarters that end in March, June, September and December. The Exchange lists QOS that expire at the end of the next consecutive four calendar quarters, as well as the fourth quarter of the next calendar year. For example, if the Exchange were trading QOS in iShares Russell 2000 Index Fund ("IWM") in the month of April 2008, it would list series that expire at the end of the second quarter 2008 (June), third quarter 2008 (September), fourth quarter 2008 (December), first quarter 2009 (March), and fourth quarter 2009 (December).

Currently, the Exchange list QOS in five ETF options: (1) Nasdaq-100 Index Tracking Stock ("QQQQ"); (2) IWM; (3) DIAMONDS Trust, Series 1 ("DIA"); (4) Standard and Poor's Depositary Receipts/SPDRs ("SPY"); and (5) Energy Select SPDR ("XLE"). The average daily trading volume and total volume for QOS in IWM options significantly exceeds the volumes for QOS in other ETF options that are listed and traded on the Exchange. The chart below provides trading volume figures for the third quarter in 2007, demonstrating that QOS in IWM options are by far the most popular and heavily traded QOS on the Exchange.

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

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

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

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

In addition, other participants have advised the Exchange that their investment strategies involve trading options tied to a particular option "delta,"[6] rather than a particular level of the underlying security or index. At issue is the fact that delta depends on both the relative difference between the level of the underlying security or index and the option strike price, and time to expiration. For example, with IWM trading at $85 per share, the strike price corresponding to a "25-delta" IWM call (i.e., a call option with a delta of 25) with one month to expiration would be 89. However, the strike price corresponding to a "25-delta" IWM call with 3 months to expiration would be 93, and the strike price of a "25-delta" call with 1 year to

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

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

expiration would be 106. In short, CBOE has been advised that the +/- $5 range for QOS in IWM options is insufficient to satisfy customer demand.

Proposed Rule Changes

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

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

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

Calls – Jun 08 exp		**Puts – Jun 08 exp**	
Strike	Open Interest?	Strike	Open Interest?
62	No	62	No
63	No	63	Yes
64	Yes	64	Yes
* * * * *	* * * * *	* * * * *	* * * * *
76	Yes	76	Yes
77	Yes	77	Yes
78	Yes	78	Yes
79	Yes	79	Yes
80	Yes	80	Yes
81	Yes	81	Yes
82	Yes	82	Yes
83	No	83	No
84	No	84	No
85	No	85	Yes
86	Yes	86	No
87	Yes	87	Yes
89	Yes	89	Yes
89	Yes	89	No
90	Yes	90	No
91	No	91	No
92	No	92	No
93	No	93	No

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

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

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

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

The Exchange represents that it has the necessary systems capacity to support new options series that will result from this proposal. Further, as proposed, the Exchange notes that this rule change would become part of the pilot program and, going forward, would be considered by the Commission when the Exchange seeks to renew or make permanent the pilot program in the future.[7]

2. Statutory Basis

Because the additional new series can be added without presenting capacity problems and because the Exchange has proposed a delisting policy with respect to QOS in ETF options, the Exchange believes the rule proposal is consistent with the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, the requirements of Section 6(b) of the Act.[8] Specifically, the Exchange believes that the proposed rule change is

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

[8] 15 U.S.C. 78f(b).

consistent with the requirements under Section 6(b)(5) of the Act[9] that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and, in general, to protect investors and the public interest

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

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

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

The Exchange neither solicited nor received comments on the proposal.

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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which CBOE consents, the Commission will:

A. by order approve such proposed rule change, or

B. institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

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9 15 U.S.C. 78f(b)(5).

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-CBOE-2007-96 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-CBOE-2007-96. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2007-96 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[10]

Florence E. Harmon
Deputy Secretary

[10] 17 CFR 200.30-3(a)(12).