SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56487; File No. SR-CBOE-2007-04)

September 20, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Approval of a Proposed Rule Change as Modified by Amendment No. 1 Thereto Amending its Obvious Error Rule for Equity Options

I. Introduction

On February 21, 2007, 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")[1] and Rule 19b-4 thereunder,[2] a proposed rule change to amend CBOE Rule 6.25, Nullification and Adjustment of Equity Options Transactions, to revise its obvious error provision related to "no bid series" and to make a non-substantive change by adding a cross-reference within the text of Rule 6.25. On July 2, 2007, 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 August 9, 2007.[3] 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 proposes to amend Rule 6.25 by modifying the nullification provisions for "no bid series" options.[4] Currently, Rule 6.25 provides that electronic transactions in series that

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

2 17 CFR 240.19b-4.

3 Securities Exchange Act Release No. 56190 (August 2, 2007), 72 FR 44892.

4 The proposed rule change also would add a cross-reference to paragraph (a)(5) to the introductory language of Rule 6.25. According to the CBOE, this proposed change is non-substantive because the text of Rule 6.25(a)(5) currently provides that the provision is not applicable to trades executed in open outcry.

are quoted no bid are subject to nullification if at least one strike price below (for calls) or above (for puts) in the same options class was quoted no bid at the time of execution. Under the proposed revision to Rule 6.25, electronic transactions in a series quoted no bid on the Exchange could be nullified if: (i) the bid in that series immediately preceding the execution was, and for five (5) seconds prior to the execution remained, zero; and (ii) at least one strike price below (for calls) or above (for puts) in the same options class was quoted no bid at the time of execution.

The proposed rule change would require that for purposes of the "no bid series" provision, bids and offers of the parties to the subject trade that are in any of the series in the same options class would not be considered. In addition, the proposed rule change would provide that each group of series in an options class with a non-standard deliverable would be treated as a separate options class. Finally, the proposed rule change would clarify that the "no bid series" provision is intended to apply to series quoted no bid on the Exchange (as opposed to series for which the national best bid is quoted no bid).[5]

. 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[6] and, in particular, the requirements of Section 6(b) of the Act[7] and the rules and regulations thereunder. Specifically, the Commission finds that the proposal is consistent with

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5 Consistent with the existing provisions, for a nullification to be granted, any member or person associated with a member that believes it participated in a transaction that falls within the "no bid series" parameters must also satisfy the notification procedures set forth in paragraph (b) of Rule 6.25.

6 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).

7 15 U.S.C. 78f(b).

Section 6(b)(5) of the Act,[8] 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 Exchange represented that the proposed changes to the "no bid series" provision are intended to address the Exchange's experience in applying this provision to particular trading scenarios that have occurred. The Commission believes that the proposed rule change is designed to clarify the application of Rule 6.25 to "no bid series" options and thus is an appropriate modification of the Exchange's obvious error rule.

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8 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[9] that the proposed rule change (SR-CBOE-2007-04), as amended, is hereby approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[10]

Florence E. Harmon
Deputy Secretary

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9 15 U.S.C. 78s(b)(2).

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