

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56317; File No. SR-CBOE-2007-93)

August 24, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend CBOE's Rules Related to Credit Default Basket Options

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 21, 2007, the Chicago Board Options Exchange, Incorporated ("Exchange" or "CBOE") 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 prepared substantially by the Exchange. The Exchange has designated the proposed rule change as one constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule under Section 19(b)(3)(A)(i) of the Act³ and Rule 19b-4(f)(1) thereunder,⁴ which renders the proposal effective upon filing with the Commission. 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 rules pertaining to Credit Default Basket Options ("CDBOs") in order to conform the Exchange's Succession Event confirmation process for CDBOs with that currently codified for single-name Credit Default Options ("CDOs").⁵ The text of the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(i).

⁴ 17 CFR 240.19b-4(f)(1).

⁵ See Securities Exchange Act Release No. 56114 (July 20, 2007), 72 FR 41367 (July 27, 2007) (SR-CBOE-2007-81).

proposed rule change is available on the Exchange's Web site (<http://www.cboe.org/legal>), at the Exchange's principal office, and at the Commission's Public Reference Room.

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 those 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange has received approval from the Commission to list and trade CDOs and CDBOs, which are different types of binary options, based on debt securities, that pay a fixed amount in the event a Credit Event is confirmed during the life of the option.⁶ Recently the Exchange amended CBOE Rule 29.4, Adjustments, in order to set out certain parameters that the Exchange intends to use for determining the applicable share to be allocated to a Successor Reference Entity if there is a CDO contract adjustment due to a Succession Event.⁷ The Exchange currently seeks to establish the same parameters for CDBOs.

⁶ See Securities Exchange Act Release No. 55871 (June 6, 2007), 72 FR 32372 (June 12, 2007) (order approving SR-CBOE-2006-84 to list and trade CDOs); Securities Exchange Act Release No. 56275 (August 17, 2007) (order approving SR-CBOE-2007-26 to list and trade CDBOs).

⁷ See supra note 5. As to CDOs, a "Successor Reference Entity" and a "Succession Event" are defined in accordance with the terms of the Relevant Obligation(s). See CBOE Rule 29.4(a)(1)(i).

CBOE Rule 29.4(b)(1) provides that, if the Exchange confirms a Succession Event in a Basket Component, that component may be replaced by one or more Basket Components (“Successor Basket Components”) consisting of Successor Reference Entity(ies).⁸ Currently, the rule does not provide a framework for determining the allocation among Successor Basket Component(s). As it applies to CDOs, CBOE Rule 29.4(a)(1) makes clear that, if the Exchange confirms a Succession Event, the allocation among Successor Reference Entities will be based on the applicable share of each Successor Reference Entity. In order to conform the Exchange’s Succession Event confirmation process for CDBOs with the process used for CDOs, the Exchange first proposes to amend CBOE Rule 29.4(b)(1) to clarify that, if the Exchange confirms a Succession Event in a Basket Component, that component will be replaced by one or more Basket Components (“Successor Basket Component(s)”) that have succeeded the original Basket Component based on the applicable share of each Successor Basket Component.⁹

Second, the Exchange proposes to specify how the “applicable share” would be calculated. Consistent with CDOs, the term “applicable share” would be a percentage amount used to determine the adjusted cash settlement amount applicable to each Successor Basket Component.¹⁰ As set out in the proposed revisions to CBOE Rule 29.4(b)(1)(i), in determining the applicable share, the Exchange as a general rule would allocate an equal share to each Successor Basket Component that has succeeded the original Basket Component as issuer and

⁸ As to CDBOs, a “Successor Basket Component” and a “Succession Event” are defined in accordance with the terms of the Relevant Obligation(s). See CBOE Rule 29.4(b)(1)(i).

⁹ The Exchange also proposes to change the word “may” to “will” in CBOE Rule 29(b)(1) to provide additional clarity and certainty with respect to the Exchange’s Succession Event confirmation process.

¹⁰ Every determination by the Exchange pursuant to CBOE Rule 29.4 is within the Exchange’s sole discretion, is conclusive and binding on all holders and sellers, and is not subject to review. See CBOE Rule 29.4(e).

guarantor of (i) at least one Relevant Obligation and (ii) at least 25% of the principal amount of the original Basket Component's outstanding debt obligations other than non-recourse indebtedness. If no Successor Basket Component satisfies the "at least 25%" requirement and the original Basket Component does not survive following the Succession Event, an equal share will be allocated to the Successor Basket Component(s) that succeeded to the largest percentage of the original Basket Component's outstanding debt obligations other than non-recourse indebtedness."¹¹ These proposed "applicable share" parameters would override any contradictory provision in the terms of the Relevant Obligation(s).

As with CDOs, the Exchange believes that setting forth these same conforming parameters would clarify how the Exchange intends to administer the Succession Event confirmation process, thereby affording investors with additional clarity and certainty regarding the impact of a Succession Event on an outstanding CDBO contract. The Exchange also understands that these parameters would be substantially similar to and generally consistent with the practice in the over-the-counter market.

Finally, the Exchange is also proposing two technical changes to CBOE Rule 29.4. Specifically, the Exchange proposes to substitute the term "Reference Entity" with the term "Basket Component" in two places in the rule text. With respect to CDBOs, the term "Reference Entity"

¹¹ If no Successor Basket Component satisfies the "at least 25%" requirement and the original Basket Component survives, then no Succession Event will be deemed to have occurred and the CDBO contract will not be adjusted.

As provided in CBOE Rule 29.4(b)(1)(ii), in the event of an adjustment for succession, the Exchange would specify the Reference Obligation, the recovery rate, and the basket weight of each Successor Basket Component, and the newly specified weight(s) would equal the weight of the predecessor Basket Component replaced by the Successor Basket Component(s).

and “Basket Component” have identical meanings and are defined as the issuer or guarantor of one of the Reference Obligations that underlies a CDBO.¹²

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations under the Act applicable to national securities exchanges. Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹³ which requires that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. As indicated above, the Exchange believes conforming the Succession Event confirmation process for CDBOs with the existing process for CDOs would afford investors additional clarity and certainty regarding the impact of a Succession Event on an outstanding CDBO contract.

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

CBOE 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

Because the foregoing rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule, it has become

¹² See CBOE Rules 29.1(f) and (h).

¹³ 15 U.S.C. 78f(b)(5).

effective pursuant to Section 19(b)(3)(A)(i) of the Act¹⁴ and Rule 19b-4(f)(1) thereunder.¹⁵ At any time within 60 days of the filing of the 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.

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-CBOE-2007-93 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-2007-93. 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

¹⁴ 15 U.S.C. 78s(b)(3)(A)(i).

¹⁵ 17 CFR 240.19b-4(f)(1).

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 am and 3:00 pm. Copies of such filing also will be available for inspection and copying at the principal office of CBOE. 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-2007-93 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁶

Nancy M. Morris
Secretary

¹⁶ 17 CFR 200.30-3(a)(12).