

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-56380; File No. SR-CBOE-2007-105)

September 10, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend its Rules Pertaining to the Contract Multiplier for Credit Default Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 7, 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 filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder,<sup>4</sup> which renders the proposal effective upon filing with the Commission.<sup>5</sup> 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 the applicable contract multiplier for Credit Default Options (“CDOs”). The text of the proposed rule change is available on the Exchange’s Web site ([www.cboe.org/Legal](http://www.cboe.org/Legal)), at the Exchange’s principal office, and at the Commission.

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

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

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

<sup>5</sup> CBOE gave the Commission written notice of its intent to file the proposed rule change on August 30, 2007.

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 recently received approval to list and trade CDOs,<sup>6</sup> which are binary call options based on Credit Events<sup>7</sup> in one or more debt securities of an issuer or guarantor. If the Exchange confirms a Credit Event, a CDO would be subject to automatic exercise and a fixed cash settlement amount payment of \$100,000 per contract. The \$100,000 is equal to a fixed exercise settlement value of \$100 multiplied by a fixed contract multiplier of 1,000.

The purpose of this rule change is to modify the rule provisions pertaining to CDO contract multipliers to permit the Exchange to vary the particular contract multiplier term on a class-by-class basis within a range of 1 to 1,000.<sup>8</sup> The exercise settlement value would remain fixed at \$100. Thus, a given CDO class could have a cash settlement amount ranging from \$100

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<sup>6</sup> See Securities Exchange Act Release No. 55871 (June 6, 2007), 72 FR 32372 (June 12, 2007) (SR-CBOE-2006-84).

<sup>7</sup> A "Credit Event" occurs when an issuer or guarantor has a Failure-to-Pay Default on, any other Event of Default on, and/or a Restructuring of the Relevant Obligation(s). Failure-to-Pay Defaults, Events of Default, and Restructurings are defined in accordance with the terms of the Relevant Obligation(s) and are subject to certain minimum threshold amounts provided in Rule 29.1(c). The "Relevant Obligations" are the debt security obligation(s) of the issuer or guarantor that underlie a CDO. See Rules 29.1(c).

<sup>8</sup> See proposed change to Rule 29.1(a) and corresponding change to Rule 29.9(e).

per contract (equal to an exercise settlement value of \$100 multiplied by a contract multiplier of 1) to \$100,000 per contract (equal to an exercise settlement value of \$100 multiplied by a contract multiplier of 1,000). Based on feedback from members and potential investors, the Exchange believes it is essential to have the ability to introduce CDOs where the contract payout is less than \$100,000 in order to attract liquidity and to better service customer demands and needs.

In calculating the applicable position limits and reporting requirements, the Exchange is proposing that any “reduced-value” CDOs (i.e., CDOs that have a cash settlement amount that is less than \$100,000 per contract) would be aggregated with any equivalent full-value CDOs and counted by the amount by which they equal a full-value CDO contract.<sup>9</sup> For example, the Exchange might determine to list reduced-value CDOs based on a Failure-to-Pay Default of the Relevant Obligations of Issuer ABC using a contract multiplier of 100, in which case the reduced-value CDO would be subject to a \$10,000 per contract payout upon confirmation of a Failure-to-Pay Default (\$100 multiplied by 100, which is 1/10th the value of a full-value CDO). The applicable position limits and reporting requirements would be equivalent to the reduced-value contract factor multiplied by the applicable position limits for a full-value option on the same broad-based index. Using the example above, the position limits for the reduced-value CDOs (1/10th full-value) would be 50,000 contracts, which is equal to the applicable reduced-value factor (10) multiplied by the applicable position limit for a full-value CDO class (5,000 contracts).<sup>10</sup> Likewise, the hedge reporting requirements would be 10,000 contracts, which is

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<sup>9</sup> See proposed changes to Rules 29.5(a) and 29.6.

<sup>10</sup> As indicated above, positions in reduced-value CDOs would be aggregated with positions in equivalent full-value CDOs for purposes of calculating position limit and reporting requirements. For example, if a CDO is reduced by one-tenth, ten reduced-value CDO contracts would equal one full-value contract. If a CDO is reduced by one-fifth, five

equal to the applicable factor (10) multiplied by the applicable reporting level for a full-value CDO class (1,000 contracts).

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) of the Act,<sup>11</sup> 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.

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 that is 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 does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, provided that the self-regulatory

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reduced-value CDO contracts would equal one full-value CDO contract.

<sup>11</sup> 15 U.S.C. 78f(b)(5).

organization has given the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change or such shorter time as designated by the Commission, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>12</sup> and Rule 19b-4(f)(6) thereunder.<sup>13</sup>

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.

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2007-105 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-2007-105. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

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<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(6).

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 am and 3:00 pm. Copies of such filing also will be available for inspection and copying at the principal office of the 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-2007-105 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.<sup>14</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>14</sup> 17 CFR 200.30-3(a)(12).