

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-52381; File No. SR-CFE-2005-02]

Self-Regulatory Organizations; CBOE Futures Exchange, LLC; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Relating to Customer Margin Requirements for Security Futures

September 2, 2005.

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 July 26, 2005, the CBOE Futures Exchange, LLC ("CFE" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by CFE. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and to grant accelerated approval to the proposed rule change.

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

CFE is proposing margin requirements for security futures traded on CFE and other related new rules. Specifically, the proposed rule change sets the minimum initial and maintenance customer margin rates for such security futures and provides for lower margin levels for permitted strategy-based offset positions. The proposed rules exclude certain financial relations to which the SEC's margin rules do not apply. The proposed rule change also establishes standards under which CFE Trading Privilege Holders ("TPHs") may qualify as security futures dealers and therefore be excluded from CFE's margin rules. Lastly, the proposed rule change sets forth a security futures market maker program. The text of the proposed rule change is provided below. New text is italicized.

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CBOE Futures Exchange, LLC

517. Customer Margin Requirements for Contracts that are Security Futures

(a) *Scope of Rule.* This Rule 517 shall apply to positions resulting from transactions in Security Futures, traded on the Exchange or subject to the Rules of the Exchange to the extent that such positions are held by Clearing Members or, if applicable, Trading Privilege

Holders on behalf of Customers in futures accounts (as such term is defined in Commission Regulation § 1.3(vv) and Exchange Act Regulation 15c3-3(a)), with paragraph (n) of this Rule 517 also applying to such positions held in securities accounts (as such term is defined in Commission Regulation 1.3(wv) and Exchange Act Regulation 15c3-3(a)). As used in this Rule 517, the term "Customer" does not include (i) any exempted person (as such term is defined in Commission Regulation § 41.43(a)(9) and Exchange Act Regulation 401(a)(9)) and (ii) any Market Maker (as such term is defined in paragraph (n) below). Nothing in this Rule 517 shall alter the obligation of each Clearing Member and, if applicable, Trading Privilege Holder to comply with Applicable Law relating to customer margin for transactions in Security Futures, including without limitation Commission Regulations 41.42 through 41.49 or Rules 400 through 406 under the Exchange Act, as applicable (including in each case any successor regulations or rules).

(b) *Margin System.* The Standard Portfolio Analysis of Risk (SPAN®* is the margin system adopted by the Exchange. SPAN® generated margin requirements shall constitute Exchange margin requirements. All references to margin in the Rules of the Exchange shall be to margin computed on the basis of SPAN®. Margin systems other than SPAN® may be used to meet Exchange margin requirements if the relevant Clearing Member or, if applicable, Trading Privilege Holder can demonstrate that its margin system will result in margin requirements that are in all cases equal to or greater than the corresponding requirements determined on the basis of SPAN®.

(c) *Margin Rate.* The Exchange will set and publish the initial and maintenance margin rates to be used in determining Exchange margin requirements; provided that in no case shall the required margin for any long or short position held by a Clearing Member or, if applicable, Trading Privilege Holder on behalf of a Customer be less than the rate from time to time determined by the Commission and the Securities and Exchange Commission for purposes of Commission Regulation 41.45(b)(1) and Rule 403(b)(1) under the Exchange Act unless a lower margin level is available for such position pursuant to paragraph (m) below.

*"SPAN" is a registered trademark of Chicago Mercantile Exchange Inc., used herein under license. Chicago Mercantile Exchange Inc. assumes no liability in connection with the use of SPAN by any person or entity.

(d) *Acceptable Margin Deposits.*
(i) *Clearing Members and, if applicable, Trading Privilege Holders* may accept from their Customers as margin deposits of cash, margin securities (subject to the limitations set forth in the following sentence), exempted securities, any other assets permitted under Regulation T of the Board of Governors of the Federal Reserve System (as in effect from time to time) to satisfy a margin deficiency in a securities margin account, and any combination of the foregoing, each as valued in accordance with Commission Regulation 41.46(c) and (e) or Rule 404(c) and (e) under the Exchange Act, as applicable. Shares of a money market mutual fund that meet the requirements of Commission Regulations 1.25 and 41.46(b)(2) and Rule 404(b)(2) under the Exchange Act, as applicable, may be accepted as a margin deposit from a Customer for purposes of this Rule 517.

(ii) A Clearing Member or, if applicable, Trading Privilege Holder shall not accept as margin from any Customer securities that have been issued by such Customer or an Affiliate of such Customer unless such Clearing Member or Trading Privilege Holder files a petition with and receives permission from the Exchange for such purpose.

(iii) All assets deposited by a Customer to meet margin requirements must be and remain unencumbered by third party claims against the depositing Customer.

(iv) Except to the extent prescribed otherwise by the Exchange, cash margin deposits shall be valued at market value and all other margin deposits shall be valued at an amount not to exceed that set forth in Commission Regulation 41.46(c) and (e) or Rule 404(c) and (e) under the Exchange Act, as applicable (including in each case any successor regulations or rules).

(e) *Acceptance of Orders.* Clearing Members and, if applicable, Trading Privilege Holders may accept Orders for a particular Customer account only if sufficient margin is on deposit in such account or is forthcoming within a reasonable period of time (which shall be no more than five Business Days, although the relevant Clearing Member or, if applicable, Trading Privilege Holder may deem one hour to be a reasonable period of time). For a Customer account that has been subject to calls for margin for an unreasonable period of time, Clearing Members and, if applicable, Trading Privilege Holders may only accept Orders that, when executed, will reduce the margin requirements resulting from the existing positions in such account. Clearing

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Members and, if applicable, Trading Privilege Holders may not accept Orders for a Customer account that would liquidate to a deficit or that has a debit balance.

(f) **Margin Calls.** Clearing Members and, if applicable, Trading Privilege Holders must call for margin from a particular Customer:

(i) when the margin equity on deposit in such Customer's account falls below the applicable maintenance margin requirement; or

(ii) subsequently, when the margin equity on deposit in such Customer's account, together with any outstanding margin calls, is less than the applicable maintenance margin requirement.

Any such call must be made within one Business Day after the occurrence of the event giving rise to such call. Clearing Members and, if applicable, Trading Privilege Holders may call for additional margin at their discretion.

Clearing Members and, if applicable, Trading Privilege Holders shall reduce any call for margin only to the extent that margin deposits permitted under paragraph (d) above are received in the relevant account. Clearing Members and, if applicable, Trading Privilege Holders may delete any call for margin only if (i) margin deposits permitted under paragraph (d) above equal to or in excess of the deposits called are received in the relevant account or (ii) inter-day favorable market movements or the liquidation of positions result in the margin on deposit in the relevant account being equal to or greater than the applicable initial margin requirement. In the event of any such reduction or deletion, the oldest outstanding margin call shall be reduced or deleted first.

Clearing Members and, if applicable, Trading Privilege Holders, shall maintain written records of any and all margin calls issued, reduced or deleted by them.

(g) **Disbursements of Excess Margin.** Clearing Members and, if applicable, Trading Privilege Holders may release to Customers margin on deposit in any account only to the extent that such margin is in excess of the applicable initial margin requirement under this Rule 517 and any other applicable margin requirement.

(h) **Loans to Customers.** Clearing Members and, if applicable, Trading Privilege Holders may not extend loans to Customers for margin purposes unless such loans are secured within the meaning of Commission Regulation 1.17(c)(3). The proceeds of any such loan must be treated in accordance with Commission Regulation 1.30.

(i) **Aggregation of Accounts and Positions.** For purposes of determining margin requirements under this Rule 517, Clearing Members and, if applicable, Trading Privilege Holders shall aggregate accounts under identical ownership if such accounts fall within the same classifications of customer segregated, customer secured, special reserve account for the exclusive benefit of customers and non-segregated for margin purposes. Clearing Members and, if applicable, Trading Privilege Holders may compute margin requirements for identically owned concurrent long and short positions on a net basis.

(j) **Omnibus Accounts.** Clearing Members and, if applicable, Trading Privilege Holders shall collect margin on a gross basis for positions held in domestic and foreign omnibus accounts. For omnibus accounts, initial margin requirements shall equal the corresponding maintenance margin requirements. Clearing Members and, if applicable, Trading Privilege Holders shall obtain and maintain written instructions from domestic and foreign omnibus accounts for positions that are eligible for offsets pursuant to paragraph (m) below.

(k) **Liquidation of Positions.** If a Customer fails to comply with a margin call required by Commission Regulations 41.42 through 41.49 or Rules 400 through 406 under the Exchange Act, as applicable, within a reasonable period of time (which shall be no more than five Business Days, although the relevant Clearing Member or, if applicable, Trading Privilege Holder may deem one hour to be a reasonable period of time), the relevant Clearing Member or, if applicable, Trading Privilege Holder may liquidate positions in such Customer's account to ensure compliance with the applicable margin requirements.

(l) **Failure To Maintain Required Margin.** If a Clearing Member or, if applicable, Trading Privilege Holder fails to maintain sufficient margin for any Customer account in accordance with this Rule 517, the Exchange may direct such Clearing Member or Trading Privilege Holder to immediately liquidate all or any part of the positions in such account to eliminate the deficiency.

(m) **Offsetting Positions.** For purposes of Commission Regulation § 41.45(b)(2) and Rule 403(b)(2) under the Exchange Act, the initial and maintenance margin requirements for offsetting positions involving Security Futures, on the one hand, and related positions, on the other hand, are set at the levels

specified in Schedule A to this Chapter 5.

(n) **Exclusion for Market Makers.**

(i) A Person shall be a "Market Maker" for purposes of this Rule 517, and shall be excluded from the requirements set forth in Commission Regulations 41.42 through 41.49 and Rules 400 through 406 under the Exchange Act, as applicable, in accordance with Commission Regulation 41.42(c)(2)(v) and Rule 400(c)(2)(v) under the Exchange Act with respect to all trading in Security Futures for its own account, if such Person is a Trading Privilege Holder or Authorized Trader that is registered with the Exchange as a dealer (as such term is defined in Section 3(a)(5) of the Exchange Act) in Security Futures.

(ii) Each Market Maker shall:

(A) be registered as a floor trader or a floor broker with the Commission under Section 4f(a)(1) of the CEA or as a dealer with the Securities and Exchange Commission (or any successor agency or authority) under Section 15(b) of the Exchange Act;

(B) maintain records sufficient to prove compliance with the requirements set forth in this paragraph (n) and Commission Regulation 41.42(c)(2)(v) or Rule 400(c)(2)(v) under the Exchange Act, as applicable, including without limitation trading account statements and other financial records sufficient to detail activity; and

(C) hold itself out as being willing to buy and sell Security Futures for its own account on a regular or continuous basis.

A Market Maker satisfies condition (C) above if:

(1) such Market Maker: (x) provides continuous two-sided quotations throughout the trading day for all delivery months of Security Futures representing a meaningful proportion of the total trading volume on the Exchange from Security Futures in which that Market Maker is designated as a Market Maker, subject to relaxation during unusual market conditions as determined by the Exchange (such as a fast market in either a Security Future or a security underlying such Security Future) at which times such Market Maker must use its best efforts to quote continuously and competitively; and (y) when providing quotations, quotes with a maximum bid/ask spread of no more than the greater of \$0.20 or 150% of the bid/ask spread in the primary market for the security underlying each Security Future; or

(2) such Market Maker: (x) responds to at least 75% of the requests for quotation for all delivery months of Security Futures representing a

meaningful proportion of the total trading volume on the Exchange from Security Futures in which that Market Maker is designated as a Market Maker, subject to relaxation during unusual market conditions as determined by the Exchange (such as a fast market in either a Security Future or a security underlying such Security Future) at which times such Market Maker must use its best efforts to quote competitively; and (y) when responding to requests for quotation, quotes within five seconds with a maximum bid/ask

spread of no more than the greater of \$0.20 or 150% of the bid/ask spread in the primary market for the security underlying each Security Future.

For purposes of clauses (1) and (2) above, beginning on the 181st calendar day after the commencement of trading of Security Futures, a "meaningful proportion of the total trading volume on the Exchange from Security Futures in which that Market Maker is designated as a Market Maker" shall mean a minimum of 20% of such trading volume.

(iii) Any Market Maker that fails to comply with the Rules of the Exchange, Commission Regulations 41.42 through 41.49 or Rules 400 through 406 under the Exchange Act, as applicable, shall be subject to disciplinary action in accordance with Chapter 7. Appropriate sanctions in the case of any such failure shall include, without limitation, a revocation of such Market Maker's registration as a dealer in Security Futures pursuant to clause (i) above.

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Schedule A to CFE Chapter 5

Margin Levels for Offsetting Positions

Description of offset	Security underlying the security future	Initial margin requirement	Maintenance margin requirement
1. Long security future (or basket of security futures representing each component of a narrow-based securities index ¹) and long put option ² on the same underlying security (or index).	Individual stock or narrow-based security index.	20% of the current market value of the long security future, plus pay for the long put in full.	The lower of: (1) 10% of the aggregate exercise price ³ of the put plus the aggregate put out-of-the-money ⁴ amount, if any; or (2) 20% of the current market value of the long security future.
2. Short security future (or basket of security futures representing each component of a narrow-based securities index) and short put option on the same underlying security (or index).	Individual stock or narrow-based security index.	20% of the current market value of the short security future, plus the aggregate put in-the-money amount, if any. Proceeds from the put sale may be applied.	20% of the current market value of the short security future, plus the aggregate put in-the-money amount, if any. ⁵
3. Long security future and short position in the same security (or securities basket) underlying the security future.	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the short stock or stocks.	5% of the current market value as defined in Regulation T of the stock or stocks underlying the security future.
4. Long security future (or basket of security futures representing each component of a narrow-based securities index) and short call option on the same underlying security (or index).	Individual stock or narrow-based security index.	20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any. Proceeds from the call sale may be applied.	20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any.
5. Long a basket of narrow-based security futures that together tracks a broad-based index and short a broad-based security index call option contract on the same index.	Narrow-based security index ..	20% of the current market value of the long basket of narrow-based security futures, plus the aggregate call in-the-money amount, if any. Proceeds from the call sale may be applied.	20% of the current market value of the long basket of narrow-based security futures, plus the aggregate call in-the-money amount, if any.
6. Short a basket of narrow-based security futures that together tracks a broad-based security index and short a broad-based security index put option contract on the same index.	Narrow-based security index ..	20% of the current market value of the short basket of narrow-based security futures, plus the aggregate put in-the-money amount, if any. Proceeds from the put sale may be applied.	20% of the current market value of the short basket of narrow-based security futures, plus the aggregate put in-the-money amount, if any.
7. Long a basket of narrow-based security futures that together tracks a broad-based security index and long a broad-based security index put option contract on the same index.	Narrow-based security index ..	20% of the current market value of the long basket of narrow-based security futures, plus pay for the long put in full.	The lower of: (1) 10% of the aggregate exercise price of the put, plus the aggregate put out-of-the-money amount, if any; or (2) 20% of the current market value of the long basket of security futures.

Margin Levels for Offsetting Positions—Continued

<i>Description of offset</i>	<i>Security underlying the security future</i>	<i>Initial margin requirement</i>	<i>Maintenance margin requirement</i>
8. Short a basket of narrow-based security futures that together tracks a broad-based security index and long a broad-based security index call option contract on the same index.	Narrow-based security index ..	20% of the current market value of the short basket of narrow-based security futures, plus pay for the long call in full.	The lower of: (1) 10% of the aggregate exercise price of the call, plus the aggregate call out-of-the-money amount, if any; or (2) 20% of the current market value of the short basket of security futures.
9. Long security future and short security future on the same underlying security (or index).	Individual stock or narrow-based security index.	The greater of: 5% of the current market value of the long security future; or (2) 5% of the current market value of the short security future.	The greater of: 5% of the current market value of the long security future; or (2) 5% of the current market value of the short security future.
10. Long security future, long put option and short call option. The long security future, long put and short call must be on the same underlying security and the put and call must have the same exercise price. (Conversion).	Individual stock or narrow-based security index.	20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any, plus pay for the put in full. Proceeds from the call sale may be applied.	10% of the aggregate exercise price, plus the aggregate call in-the-money amount, if any.
11. Long security future, long put option and short call option. The long security future, long put and short call must be on the same underlying security and the put exercise price must be below the call exercise price (Collar).	Individual stock or narrow-based security index.	20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any, plus pay for the put in full. Proceeds from call sale may be applied.	The lower of: (1) 10% of the aggregate exercise price of the put plus the aggregate put out-of-the money amount, if any; or (2) 20% of the aggregate exercise price of the call, plus the aggregate call in-the-money amount, if any.
12. Short security future and long position in the same security (or securities basket) underlying the security future.	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the long stock or stocks.	5% of the current market value, as defined in Regulation T, of the long stock or stocks.
13. Short security future and long position in a security immediately convertible into the same security underlying the security future, without restriction, including the payment of money.	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the long security.	10% of the current market value, as defined in Regulation T, of the long security.
14. Short security future (or basket of security futures representing each component of a narrow-based securities index) and long call option or warrant on the same underlying security (or index).	Individual stock or narrow-based security index.	20% of the current market value of the short security future, plus pay for the call in full.	The lower of: (1) 10% of the aggregate exercise price of the call, plus the aggregate call out-of-the-money amount, if any; or (2) 20% of the current market value of the short security future.
15. Short security future, Short put option and long call option. The short security future, short put and long call must be on the same underlying security and the put and call must have the same exercise price. (Reverse Conversion).	Individual stock or narrow-based security index.	20% of the current market value of the short security future, plus the aggregate put in-the-money amount, if any, plus pay for the call in full. Proceeds from put sale may be applied.	10% of the aggregate exercise price, plus the aggregate put in-the-money amount, if any.
16. Long (short) a basket of security futures, each based on a narrow-based security index that together tracks the broad-based index and short (long) a broad-based index future.	Narrow-based security index ..	5% of the current market value for the long (short) basket of security futures.	5% of the current market value of the long (short) basket of security futures.
17. Long (short) a basket of security futures that together tracks a narrow-based index and short (long) a narrow-based index future.	Individual stock and narrow-based security index.	The greater of: (1) 5% of the current market value of the long security future(s); or (2) 5% of the current market value of the short security future(s).	The greater of: (1) 5% of the current market value of the long security future(s); or (2) 5% of the current market value of the short security future(s).

Margin Levels for Offsetting Positions—Continued

Description of offset	Security underlying the security future	Initial margin requirement	Maintenance margin requirement
18. Long (short) a security future and short (long) an identical security future traded on a different market. ⁶	Individual stock and narrow-based security index.	The greater of: (1) 3% of the current market value of the long security future(s); or (2) 3% of the current market value of the short security future(s).	The greater of: (1) 3% of the current market value of the long security future(s); or (2) 3% of the current market value of the short security future(s).

¹ Baskets of securities or security futures contracts must replicate the securities that comprise the index, and in the same proportion.

² Generally, for the purposes of these rules, unless otherwise specified, stock index warrants shall be treated as if they were index options.

³ "Aggregate exercise price," with respect to an option or warrant based on an underlying security, means the exercise price of an option or warrant contract multiplied by the numbers of units of the underlying security covered by the option contract or warrant. "Aggregate exercise price" with respect to an index option, means the exercise price multiplied by the index multiplier. See, e.g., Amex Rules 900 and 900C; CBOE Rule 12.3; and NASD Rule 2522.

⁴ "Out-of-the-money" amounts shall be determined as follows:

(1) for stock call options and warrants, any excess of the aggregate exercise price of the option or warrant over its current market value (as determined in accordance with Regulation T of the Board of Governors of the Federal Reserve System);

(2) for stock put options or warrants, any excess of the current market value (as determined in accordance with Regulation T of the Board of Governors of the Federal Reserve System) of the option or warrant over its aggregate exercise price;

(3) for stock index call options and warrants, any excess of the aggregate exercise price of the option or warrant over the product of the current index value and the applicable index multiplier; and

(4) for stock index put options and warrants, any excess of the product of the current index value and the applicable index multiplier over the aggregate exercise price of the option or warrant. See, e.g., NYSE Rule 431 (Exchange Act Release No. 42011 (October 14, 1999), 64 FR 57172 (October 22, 1999) (order approving SR-NYSE-99-03)); Amex Rule 462 (Exchange Act Release No. 43582 (November 17, 2000), 65 FR 71151 (November 29, 2000) (order approving SR-Amex-99-27)); CBOE Rule 12.3 (Exchange Act Release No. 41658 (July 27, 1999), 64 FR 42736 (August 5, 1999) (order approving SR-CBOE-97-67)); or NASD Rule 2520 (Exchange Act Release No. 43581 (November 17, 2000), 65 FR 70854 (November 28, 2000) (order approving SR-NASD-00-15)).

⁵ "In-the-money" amounts must be determined as follows:

(1) for stock call options and warrants, any excess of the current market value (as determined in accordance with Regulation T of the Board of Governors of the Federal Reserve System) of the option or warrant over its aggregate exercise price;

(2) for stock put options or warrants, any excess of the aggregate exercise price of the option or warrant over its current market value (as determined in accordance with Regulation T of the Board of Governors of the Federal Reserve System);

(3) for stock index call options and warrants, any excess of the product of the current index value and the applicable index multiplier over the aggregate exercise price of the option or warrant; and

(4) for stock index put options and warrants, any excess of the aggregate exercise price of the option or warrant over the product of the current index value and the applicable index multiplier.

⁶ Two security futures will be considered "identical" for this purpose if they are issued by the same clearing agency or cleared and guaranteed by the same derivatives clearing organization, have identical contract specifications, and would offset each other at the clearing level.

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CFE Policy and Procedure VII. Security Futures Market Maker Registration Policy and Procedures

A. Security Futures Market Maker Program

Pursuant to Exchange Rule 514, the Exchange has adopted a market maker program under which one or more Trading Privilege Holders or Authorized Traders may be designated as market makers in respect of one or more Security Futures to provide liquidity and orderliness in the market for such Security Futures. To be designated as an Exchange market maker in Security Futures, a Trading Privilege Holder or Authorized Trader must complete and file with the Exchange a Market Maker Registration Form. By signing the registration form the Trading Privilege Holder or Authorized Trader will confirm that it meets and will continue to meet the qualifications to act as market maker in Security Futures in accordance with Exchange Rules. The member will be required to identify all Security Futures for which it seeks to be designated as a market maker and elect which of the two alternative sets of

market maker obligations specified in Exchange Rule 517(n) it intends to undertake.

B. Market Maker Exclusion from Customer Margin Requirements

To qualify for the market maker exclusion in Exchange Rule 517(n) for purposes of the Exchange's customer margin rules relating to Security Futures, a person must:

(1) be a Trading Privilege Holder or Authorized Trader that is registered with the Exchange as a dealer in Security Futures as defined in Section 3(a)(5) of the Exchange Act;

(2) be registered as a floor trader or a floor broker under Section 4f(a)(1) of the CEA or as a dealer with the Securities and Exchange Commission ("SEC") under Section 15(b) of the Exchange Act;

(3) maintain records sufficient to prove compliance with the requirements of Exchange Rule 517(n) and Commission Rule 41.42(c)(2)(v) and SEC Rule 400(c)(2)(v) under the Exchange Act as applicable, including without limitation trading account statements and other financial records sufficient to detail activity; and

(4) hold itself out as being willing to buy and sell Security Futures for its own account on regular or continuous basis.

In addition, the market maker exclusion provides that any market maker that fails to comply with the rules of the Exchange or the margin rules adopted by the SEC and the Commission shall be subject to disciplinary action in accordance with Chapter 7 of the Exchange's rules, and that appropriate sanctions in the case of any such failure shall include, without limitation, a revocation of such market maker's registration as a dealer in Security Futures.

C. Market Maker Categories

Exchange Rule 517(n) specifies two alternative ways for a Trading Privilege Holder or Authorized Trader to satisfy the requirement that a market maker hold itself out as being willing to buy and sell Security Futures for its own account on a regular or continuous basis. Each Trading Privilege Holder or Authorized Trader seeking market maker designation must register for one of the following two market maker categories and will undertake to perform all of the obligations set forth in the elected category:

Category 1. The market maker will provide continuous two-sided quotations throughout the trading day for all delivery months of Security Futures representing a meaningful proportion of the total trading volume on the Exchange from Security Futures in which that market maker is designated as a market maker, subject to relaxation during unusual market conditions as determined by the Exchange (such as a fast market in either a Security Future or a security underlying such Security Future) at which times such market maker must use its best efforts to quote continuously and competitively; and when providing quotations, quotes for a minimum of one contract with a maximum bid/ask spread of no more than the greater of \$0.20 or 150 percent of the bid/ask spread in the primary market for the security underlying each Security Future; or

Category 2. The market maker will respond to at least 75 percent of the requests for quotations for all delivery months of Security Futures representing a meaningful proportion of the total trading volume on the Exchange from Security Futures in which that market maker is designated as a market maker, subject to relaxation during unusual market conditions as determined by the Exchange (such as a fast market in either a Security Future or a security underlying such Security Future) at which times such market maker must use its best efforts to quote competitively; and when responding to requests for quotation, quotes within five seconds for a minimum of one contract with a maximum bid/ask spread of no more than the greater of \$0.20 or 150 percent of the bid/ask spread in the primary market for the security underlying each Security Future.

For purposes of Categories (1) and (2) above, beginning on the 181st calendar day after the commencement of trading of Security Futures, a "meaningful proportion of the total trading volume on the Exchange from Security Futures in which that market maker is designated as a market maker" shall mean a minimum of 20 percent of such trading volume.

D. Qualification for "60/40" Tax Treatment

To qualify as a "dealer" in security futures contracts within the meaning of Section 1256(g)(9) of the Internal Revenue Code of 1986, as amended (the "Code"), a Trading Privilege Holder or Authorized Trader is required (i) to register as a market maker for purposes of the Exchange's margin rules under

Category 1 or Category 2 above; (ii) to undertake in its registration form to provide quotations for all products specified for the market maker exclusion from the Exchange margin rules; and (iii) to quote a minimum size of

(A) ten (10) contracts for each product not covered by (B) or (C) below;

(B) five (5) contracts for each product specified by the member to the extent such quotations are provided for delivery months other than the next two delivery months then trading; and

(C) one (1) contract for any single stock futures contract where the average market price for the underlying stock was \$100 or higher for the preceding calendar month or for any futures contract on a narrow-based security index, as defined by Section 1a(25) of the CEA.

E. Products

As noted above in completing the Market Maker Registration Form, a member must specify all Security Futures for which it intends to act as a market maker. The Exchange will assign to the Trading Privilege Holder or Authorized Trader all of the Security Futures listed on its registration form, unless the Exchange provides written notice to the Trading Privilege Holder or Authorized Trader identifying any Security Futures for which such assignment is withheld. A Trading Privilege Holder or Authorized Trader may change the list of Security Futures for which it undertakes to act as market maker for any calendar quarter by filing a revised Market Maker Registration Form with the Exchange on any business day prior to the last trading day of such quarter, and such change shall be effective retroactive to the first trading day of such quarter. Each market maker shall be responsible for maintaining books and records that confirm that it has fulfilled its quarterly obligations under the market maker category elected on its Market Maker Registration Form in respect of all Security Futures designated for that calendar quarter.

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 III below. The Exchange has prepared summaries, set

forth in sections A, B, and C below, of the most significant parts of such statements.

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

CFE is proposing to adopt new CFE Rule 517, including Schedule A thereto (the "Proposed Rule") to (i) establish general requirements and procedures relating to customer margining by security futures intermediaries ("General Margin Rules"), (ii) set initial and maintenance margin levels for offsetting positions involving security futures and related positions at levels lower than the levels that would be required if those positions were margined separately ("Margin Offset Rule"), and (iii) exclude proprietary trades of qualifying security futures dealers from the margin requirements set forth in the Proposed Rule and the related regulatory requirements ("Market Maker Exclusion"). The General Margin Rules, which are contained in paragraphs (a) through (l) of the Proposed Rule, are detailed below. The Margin Offset Rule consists of paragraph (m) of the Proposed Rule and a table of offsets contained in proposed Schedule A to Chapter 5 of CFE's Rules, which describes in detail the margin offsets available with respect to particular combinations of security futures and related positions. Lastly, the proposed rule change sets forth a security futures market maker program in proposed CFE Policy and Procedure VII, which is being adopted pursuant to CFE Rule 514.

(a) General Margin Rules

The General Margin Rules, which are identical to the rules of OneChicago, LLC ("OneChicago") that relate to customer margining by security futures intermediaries, are designed to complement the customer margin rules set forth in Rules 400 through 406 under the Act ("Exchange Act Rules").³ The Exchange Act Rules contain detailed requirements with respect to the margin to be collected from customers in connection with security futures and related positions held by security futures intermediaries on behalf of such customers. While the General Margin Rules are based on the standardized margin procedures developed by the U.S. futures exchanges' Joint Audit Committee and similar rules in effect for other contract markets designated under the Commodity Exchange Act, as

³ 17 CFR 242.400-406.

amended ("CEA"),⁴ those precedents have been modified in certain respects to conform to the requirements of the Exchange Act Rules. The following paragraphs contain a brief explanation of each paragraph of the General Margin Rules:

Paragraph (a) of the Proposed Rule defines the scope of application of the Proposed Rule in two important respects. First, it provides that the Proposed Rule only applies to transactions in contracts traded on or subject to the rules of CFE. To the extent that security futures intermediaries engage in security futures transactions on or through other exchanges as well, they will need to comply with the respective margin requirements established by such other exchanges. Second, paragraph (a) clarifies that the requirements set forth in the Proposed Rule generally only apply to security futures intermediaries that carry security futures products in futures accounts (with the exception of paragraph (n), which also applies to positions held in securities accounts). As provided in Rule 402(a) under the Act,⁵ security futures intermediaries that carry security futures in securities accounts are subject to the Exchange Act Rules, Regulation T⁶ of the Board of Governors of the Federal Reserve System, and the margin requirements of the self-regulatory organizations of which they are a member. In addition, paragraph (a) tracks the exemption for "exempted persons" pursuant to Rule 401(a)(9) under the Act.⁷

Paragraph (b) of the Proposed Rule adopts the Standard Portfolio Analysis of Risk (SPAN®) as the margining system for CFE. SPAN® was developed by the Chicago Mercantile Exchange Inc. and has also been adopted by OneChicago. SPAN® evaluates the risk of the futures and options portfolio in each account and assesses a margin requirement based on such risk by establishing reasonable movements in futures prices over a one day period. Security futures intermediaries entering into transactions on CFE can receive risk arrays based on SPAN® to calculate margins for each of their accounts, so that they can calculate minimum margin requirements for such accounts on a daily basis. However, until such time as portfolio margining is approved and implemented for security futures without a required minimum margin level, SPAN® must be programmed to generate a margin level for each long or

short position in a security future at a level not less than the required margin level for such security future.

Paragraph (c) of the Proposed Rule sets the required minimum margin level for each long or short position in a security future at 20 percent of the current market value of such security future, as required by Rule 403(b) under the Act.⁸ The only exception from this general requirement contemplated by the Proposed Rule is the Margin Offset Rule, which is described in greater detail under section (b) below.

Paragraph (d) of the Proposed Rule specifies the types of margin that a security futures intermediary may accept from a customer. Consistent with Rule 404(b) under the Act,⁹ acceptable types of margin are limited to deposits of cash, margin securities (subject to specified restrictions), exempted securities, any other assets permitted under Regulation T¹⁰ of the Board of Governors of the Federal Reserve System to satisfy a margin deficiency in a securities margin account, and any combination of the foregoing. Paragraph (d) of the Proposed Rule further provides that the different types of eligible margin are to be valued in accordance with the applicable principles set forth in Rule 404 under the Act.¹¹

Paragraph (e) of the Proposed Rule provides that security futures intermediaries may accept orders for a particular account only if (i) sufficient margin is on deposit in such account or is forthcoming within a reasonable time, or (ii) in the event that the conditions set forth in (i) are not satisfied, such orders reduce the margin requirements resulting from the existing positions in such account. This provision is designed to prevent account holders from exacerbating any already existing margin deficiency by entering into further transactions.

Paragraph (f) of the Proposed Rule establishes the general principle that a security futures intermediary must call for initial or maintenance margin equity whenever the minimum margin requirements determined in accordance with paragraph (c) of the Proposed Rule (taking into account any relief available under the Margin Offset Rule) is not satisfied. Any such margin call must be made within one business day after the occurrence of the event giving rise to the call. Paragraph (f) also clarifies that security futures intermediaries may call for margin in excess of CFE's minimum

requirements. Finally, paragraph (f) provides that a margin call may only be reduced or deleted if and to the extent that (i) qualifying margin deposits are received or (ii) inter-day favorable market movements or the liquidation of positions have offset the previously existing margin deficiency. In each case, the oldest margin call outstanding at any time is to be reduced or deleted first. These provisions address necessary technical aspects of customer margining and are consistent with similar provisions contained in the precedents referred to above.

Paragraph (g) of the Proposed Rule limits the ability of customers to obtain disbursements of excess margin to any amounts in excess of the applicable initial margin requirement under the Proposed Rule and any other applicable margin requirement. This limitation is consistent with Rule 405(a) under the Act.¹²

Paragraph (h) of the Proposed Rule prohibits security futures intermediaries from extending loans to customers for margin purposes unless such loans are secured within the meaning of Commodity Futures Trading Commission ("CFTC") Regulation 1.17(c)(3).¹³ This prohibition corresponds to similar restrictions currently in effect on other contract markets.

Paragraph (i) of the Proposed Rule provides that accounts under identical ownership are to be aggregated for purposes of determining the applicable margining requirements on a net basis if such accounts fall within the same general classification (customer segregated, customer secured, special reserve account for the exclusive benefit of customers and nonsegregated). This aggregation approach is consistent with universal practice in the futures industry and reflects the fact that several accounts under identical ownership may become subject to liquidation of positions in the event of a failure to satisfy margin calls with respect to any one of such accounts.

Paragraph (j) of the Proposed Rule establishes particular rules for omnibus accounts of security futures intermediaries, namely that (i) margin for positions held in such accounts is to be collected on a gross basis, (ii) initial and maintenance margin requirements are identical, and (iii) security futures intermediaries are to obtain and maintain written instructions from such accounts with respect to positions which are eligible for offsets pursuant to the Margin Offset Rule.

⁴ 47 U.S.C. 1 *et seq.*

⁵ 17 CFR 242.402(a).

⁶ 12 CFR 220.1 *et seq.*

⁷ 17 CFR 242.401(a)(9).

⁸ 17 CFR 242.403(b).

⁹ 17 CFR 242.404(b).

¹⁰ 12 CFR 220.1 *et seq.*

¹¹ 17 CFR 242.404.

¹² 17 CFR 242.405(a).

¹³ 17 CFR 1.17(c)(3).

Paragraph (k) of the Proposed Rule enables a security futures intermediary to liquidate positions in the account of any customer that fails to comply with a required margin call within a reasonable period of time. This provision complements the requirements set forth in Rule 406(a) and (b) under the Act.¹⁴

Paragraph (1) of the Proposed Rule authorizes CFE to direct any security futures intermediaries that fail to maintain margin requirements for any account in accordance with the Proposed Rule, to immediately liquidate any or all of the positions in such account to eliminate the resulting deficit. This provision is designed to ensure compliance by security futures intermediaries with their obligations under paragraph (k) and is an important function of CFE's oversight over such intermediaries.

The Exchange Act Rules and related provisions of the Act (such as, among others, Sections 6(g)(4)(B)(ii)¹⁵ and 6(h)(3)(L)¹⁶ of the Act) are premised on each self-regulatory organization adopting margin requirements that are functionally equivalent to those contained in the General Margin Rules. Accordingly, the General Margin Rules represent a corollary of, and are designed to give effect to, the Exchange Act Rules and related provisions of the Act.

(b) *Margin Offset Rule*

Security futures intermediaries entering into transactions on CFE will be subject to, among other things, Rule 403(b)(1) under the Act,¹⁷ which provides that the margin for each long or short position in a security future will generally be 20 percent of the current market value of such security future. As discussed above, this requirement is reflected in paragraph (c) of the General Margin Rules. Pursuant to Rule 403(b)(2) under the Act,¹⁸ however, a self-regulatory authority may set the required initial or maintenance margin level for offsetting positions involving security futures and related positions at a level lower than the level that would apply if such positions were margined separately based on the aforementioned 20 percent requirement, provided the rules establishing such lower margin levels meet the criteria set forth in Section 7(c)(2)(B) of the Act.¹⁹

That Section requires, in relevant part, that:

“(I) The margin requirements for a security futures product be consistent with the margin requirements for comparable option contracts traded on any exchange registered pursuant to section 6(a) of the [Act]; and

(II) Initial and maintenance margin levels for a security future product not be lower than the lowest level of margin, exclusive of premium, required for any comparable option contract traded on any exchange registered pursuant to section 6(a) of the [Act], other than an option on a security future.”

CFE is proposing the Margin Offset Rule pursuant to, and in reliance on, Rule 403(b)(2) under the Act.²⁰ At the core of the Margin Offset Rule will be the table of offsets contained in proposed Schedule A to Chapter 5 of CFE's Rules, which describes in detail the margin offsets available with respect to particular combinations of security futures and related positions. Such Schedule A is substantively identical to the table of offsets included in the release by the CFTC and the Commission on Customer Margin Rules Relating to Security Futures (the “Customer Margin Release”). While the table differs in certain specified respects from similar tables in effect for exchange-traded options, the CFTC and Commission acknowledged in the Customer Margin Release that these limited differences are warranted by different characteristics of the instruments to which they relate. For the reasons set forth above, CFE believes that the Margin Offset Rule is consistent with the requirements of the Act and the rules and regulations thereunder applicable to CFE.

(c) *Market Maker Exclusion*

Rule 400(c)(2)(v) under the Act²¹ permits a national securities exchange to adopt rules containing specified requirements for security futures dealers, on the basis of which the financial relations between security futures intermediaries, on the one hand, and qualifying security futures dealers, on the other hand, are excluded from the margin requirements contained in the Exchange Act Rules. Any rules so adopted by an exchange must meet the criteria set forth in Section 7(c)(2)(B) of the Act,²² which is reproduced in relevant part under section (b) above.

CFE is proposing the Market Maker Exclusion pursuant to, and in reliance

on, Rule 400(c)(2)(v) under the Act.²³ CFE may select certain of its TPHs or Authorized Traders to serve as market makers with respect to security futures contracts in accordance with proposed CFE Policy and Procedure VII. From time to time, CFE may adopt other programs pursuant to CFE Rule 514 under which TPHs or Authorized Traders may be designated as market makers with respect to one or more security futures contracts in order to provide liquidity and orderliness in the relevant market or markets.

The Market Maker Exclusion as proposed reflects all of the criteria and limitations set forth in Rule 400(c)(2)(v) under the Act.²⁴ Specifically, as contemplated by the Customer Margin Release, the Market Maker Exclusion specifies the circumstances under which a Market Maker will be considered to “hold itself out as being willing to buy and sell security futures for its own account on a regular or continuous basis.” Under the Market Maker Exclusion, a Market Maker satisfies this condition if such Market Maker either:

(i) provides continuous two-sided quotations throughout the trading day for all delivery months of security futures representing a meaningful proportion of the total trading volume on the CFE from security futures in which that Market Maker is designated as a Market Maker, subject to relaxation during unusual market conditions as determined by the CFE (such as a fast market in either a security future or a security underlying such security future) at which times such Market Maker must use its best efforts to quote continuously and competitively; and when providing quotations, quotes with a maximum bid/ask spread of no more than the greater of \$0.20 or 150% of the bid/ask spread in the primary market for the security underlying each security future; or

(ii) responds to at least 75% of the requests for quotation for all delivery months of security futures representing a meaningful proportion of the total trading volume on CFE from security futures in which that Market Maker is designated as a Market Maker, subject to relaxation during unusual market conditions as determined by CFE (such as a fast market in either a security future or a security underlying such security future) at which times such Market Maker must use its best efforts to quote competitively; and when responding to requests for quotation, quotes within five seconds with a

¹⁴ 17 CFR 242.406(a) and (b).

¹⁵ 15 U.S.C. 78f(g)(4)(B)(ii).

¹⁶ 15 U.S.C. 78f(h)(3)(L).

¹⁷ 17 CFR 242.403(b)(1).

¹⁸ 17 CFR 242.403(b)(2).

¹⁹ 15 U.S.C. 78g(c)(2)(B).

²⁰ 17 CFR 242.403(b)(2).

²¹ 17 CFR 242.400(c)(2)(v).

²² 15 U.S.C. 78g(c)(2)(B).

²³ 17 CFR 242.400(c)(2)(v).

²⁴ 17 CFR 242.400(c)(2)(v).

maximum bid/ask spread of no more than the greater of \$0.20 or 150% of the bid/ask spread in the primary market for the security underlying each security future.

These two alternative standards proposed by CFE generally follow examples given in the Customer Margin Release. These standards are also identical to OneChicago Rules 515(n)(ii)(C)(1) and (2), except that the CFE standards relate only to security futures contracts and are specifically identified as such in the CFE standards. Although OneChicago Rules 515(n)(ii)(C)(1) and (2) refer generally to "contracts" (and not security futures contracts) because OneChicago only trades security futures, the effect of the both exchanges' rules are identical since what is being measured is the trading volume of security futures contracts.

(d) *Security Futures Market Maker Program*

Pursuant to CFE Rule 514, CFE is proposing to adopt a market maker program in which TPHs or Authorized Traders may be designated as market makers in respect to one or more CFE security futures contracts. The proposed rule change sets forth the procedures necessary for members to be designated as market makers and the policies in relation to such designation.

The proposed rule change reiterates the qualifications that TPHs and Authorized Traders must meet pursuant to proposed CFE Rule 517(n) to qualify for the market maker exclusion from customer margin for security futures contracts. In addition, the proposed rule change makes clear that under Chapter 7 of the CFE rules, failure to comply with CFE rules or the margin rules adopted by the Commission and the CFTC are subject to disciplinary action. The appropriate sanctions for any such failure shall include, without limitation, a revocation of such market maker's registration as a dealer in security futures.

Under the proposed rule change, a TPH or Authorized Trader seeking a market maker designation for one or more security futures contracts must submit a Market Maker Registration Form to CFE. By signing the registration form, such person confirms that it meets and will continue to meet the qualifications to act as a market maker in security futures contracts in accordance with CFE rules. The registration form requires the listing of all the security futures contracts in which such person will act as market makers. The registration form also requires the identification of the qualifying market maker category under CFE Rule 517(n).

The proposed rule change establishes that CFE will assign to the TPH or Authorized Trader all security futures contracts listed by such person on its registration form, unless CFE provides written notice to such person identifying any security futures contracts for which such assignment is withheld. Under the proposed rule change, for any calendar quarter, a market maker may change the list of security futures contracts for which it is designated by filing a revised registration form prior to the last trading day in such calendar quarter. Such change in security futures contract designation will be effective retroactive to the first trading day of such quarter. The proposed rule change also makes clear that each market maker is responsible for maintaining books and records that confirm that it has fulfilled its quarterly obligations under the market maker category as elected on its registration form for all designated security futures contracts for that quarter. Under the proposal, each market maker would also be required to maintain such books and records for every security futures contract and for each calendar quarter in which its designation as market maker in security futures contracts is maintained.

In addition, the proposed rule change sets forth the requirements that must be met to qualify as a "dealer" in security futures contracts within the meaning of Section 1256(g)(9) of the Internal Revenue Code of 1986, as amended (the "Code").²⁵ Under the proposed rule change, to qualify as a dealer within the meaning of the Code a TPH or Authorized Trader is required (i) to register as a market maker for purposes of CFE's margin rules under Category 1 or 2 (CFE Rule 517(n)(ii)(C)(1) or (2)); (ii) to undertake in its registration form to provide quotations for all products specified for the market maker exclusion from the CFE margin rules; and (iii) for each delivery month to quote a minimum size of:

(A) Ten contracts of a product not covered by (B) or (C) below;

(B) Five contracts of a product specified by the market maker for delivery months other than the next two delivery months trading at the time the quotations are made; and

(C) One contract of any single stock futures product where the average market price for the underlying stock was \$100 or higher for the preceding calendar month or for each delivery month of any futures contract on a narrow-based security index, as defined by Section 1a(25) of the CEA.

CFE believes that the General Margin, Margin Offset, and Market Maker Exclusion Rules are consistent with Commission and CFTC rules and regulations, except in those instances explained above pursuant to which CFE rules are consistent with parallel rules of OneChicago. CFE also believes the proposed security futures market maker program will provide liquidity and orderliness in the market for CFE security futures contracts. Accordingly, CFE believes the proposed rule change is consistent with the Act and the rules and regulations under the Act applicable to a national securities exchange and, in particular, the requirements of Section 6(b) of the Act.²⁶ Specifically, CFE believes the proposed rule change is consistent with the Section 6(b)(5)²⁷ requirements 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

CFE 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 received nor solicited written comments on the proposal.

III. 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-CFE-2005-02 on the subject line.

Paper Comments

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549-9309.

²⁶ 15 U.S.C. 78f(b).

²⁷ 15 U.S.C. 78f(b)(5).

²⁵ 26 U.S.C. 1256(g)(9).

All submissions should refer to File Number SR-CFE-2005-02. 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 Section, 100 F Street, NE., Washington, DC 20549. 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-CFE-2005-02 and should be submitted on or before October 3, 2005.

IV. Commission Findings and Order Granting Accelerated Approval of a Proposed Rule Change

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.²⁸ In particular, the Commission finds that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act,²⁹ which requires, among other things, that the rules of the Exchange be designed to promote just and equitable principles of trade and, in general, to protect investors and the public interest. In addition, the Commission believes that the proposed rule change is consistent with Section 7(c)(2)(B) of the Act,³⁰ which provides, among other things, that the margin requirements for security futures must preserve the financial integrity of markets trading security futures and prevent systemic

risk. The Commission also believes that the proposed rule change is consistent with the customer margin rules set forth in Rules 400 through 406 under the Act.³¹

The Exchange has requested that the Commission approve this proposed rule change prior to the thirtieth day after publication of notice of the filing in the **Federal Register**. The Commission believes that nothing in this proposed rule change raises any new, unique, or substantive issues from those previously raised in SR-OC-2002-01, as amended, which rule filing sets forth OneChicago's margin requirements for security futures, and in SR-OC-2004-01, which rule filing sets forth OneChicago's market maker program. The Exchange's proposed rules set forth herein are identical to the OneChicago's rules approved by the Commission in SR-OC-2002-01, as amended, and SR-OC-2004-01, with the exception of one market maker exemption from the margin rules which the CFE excluded because it did not correspond to its current practices. Further, the Exchange is ready to begin trading subject to the approval of this proposed rule change and the Exchange's opening would enhance competition in the marketplace. Accordingly, the Commission finds good cause for approving this proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**. Specifically, the Commission believes that it is consistent with Section 19(b)(2) of the Act³² to approve CFE's proposed rule change prior to the thirtieth day after publication of the notice of filing thereof in the **Federal Register**.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,³³ that the proposed rule change (File No. SR-CFE-2005-02) is approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³⁴

Jonathan G. Katz,

Secretary.

[FR Doc. E5-4949 Filed 9-9-05; 8:45 am]

BILLING CODE 8010-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-52379; File No. SR-CHX-2005-23]

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Order Granting Accelerated Approval to Proposed Rule Change Relating to the Assignment of Securities to Specialists

September 2, 2005.

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 25, 2005, the Chicago Stock Exchange, Inc. (the "CHX" or the "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the CHX. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons, and is approving the proposal on an accelerated basis.

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

The Exchange proposes to amend Rule 1 of Article XXX relating to Registration and Appointment to permit its Committee on Specialist Assignment and Evaluation ("CSAE") to, in special circumstances, assign securities³ to a specialist firm without the firm first identifying a particular co-specialist to trade the securities, so long as the specialist firm promptly provides the CSAE with the name of the co-specialist that would trade the issues, and the CSAE concludes that the co-specialist is qualified to trade the issues. Below is the text of the proposed rule change, as amended. Proposed new language is italicized; proposed deletions are in [brackets].

ARTICLE XXX

Specialists

Registration and Appointment

Rule 1. No change.

* * * Interpretations and Policies:

.01 Committee on Specialist Assignment and Evaluation

* * * * *

²⁸ In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

²⁹ 15 U.S.C. 78f(b)(5).

³⁰ 15 U.S.C. 78g(c)(2)(B).

³¹ 17 CFR 242.400-406.

³² 15 U.S.C. 78s(b)(2).

³³ 15 U.S.C. 78s(b)(2).

³⁴ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The Commission notes that the Exchange uses the terms "security(ies), stock(s) and issue(s)" interchangeably.