Dated: December 15, 2005.

Jonathan G. Katz,

Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–52950; File No. SR–CBOE–2004–53]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving a Proposed Rule Change and Partial Amendment No. 1 Relating to Margin Requirements for Complex Options Spreads

December 14, 2005.

I. Introduction

On July 30, 2004, the Chicago Board Options Exchange, Incorporated (''CBOE'' or the ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') a proposed rule change related to margin requirements for complex options spreads under Section 19(b)(1) of the Securities Exchange Act of 1934 (the ''Act'') [1] and Rule 19b–4.[2] On August 23, 2005, the Exchange filed a partial amendment to its proposed rule change.[3] The proposed rule change, as amended, was published in the **Federal Register** on November 14, 2005.[4] The Commission received no comments on the proposal.

II. Description

The CBOE has proposed to incorporate the provisions of a Regulatory Circular (RG03–066—*Margin Requirements for Certain Complex Spreads,* dated August 13, 2003) (the ''Circular'') into the Exchange's margin rules (Chapter 12). The Circular presents an interpretation of current margin requirements that allows the Exchange to derive, and put into effect, margin requirements for certain complex option spreads. The Commission approved the Circular on a one-year pilot basis.[5] The Commission granted two extensions of the pilot period.[6]

The Exchange has proposed to add definitions of a ''long condor spread,'' ''short iron butterfly spread'' and ''short iron condor spread'' to Rule 12.3(a). These definitions cover six of the seven strategies identified in the Circular. Each definition covers two strategies identified in the Circular because each definition provides for a base strategy, in which all options expire at the same time, and a calendar spread strategy, in which a long option may expire after the other options expire concurrently.

The Exchange has proposed a revision to its current definition of a butterfly spread to provide for the remaining strategy, a calendar spread version of the long butterfly spread. These revisions consist of (1) splitting the current butterfly spread definition into two definitions, one for the long butterfly spread and one for the short butterfly spread, (2) fashioning the two definitions so that they are consistent with the style and format of the new definitions referred to in the prior paragraph, and (3) providing for a calendar spread version in the long butterfly spread definition.

In the Circular, call options were utilized to construct three of the seven strategy examples. Each of these three strategies has a parallel application with put options. For brevity, the put option versions were not specifically identified in the Circular, but the Circular was intended to apply to the put option counterpart of each of the strategies demonstrated with call options. Both the put and call option versions are provided for in the newly proposed rule definitions. The remaining four complex spread strategies originally identified in the Circular involved both call options and put options (that is, ''iron'' strategies). Each of these four strategies has a reciprocal configuration (that is, the call options can precede the put options in ascending sequence of exercise prices). However, there is no need to address the reciprocal variations because there is no benefit from a margin requirement standpoint of including them in the iron strategy definitions.

According to the Exchange, each of the complex spreads identified in the proposed rule can be derived by combining and netting two or more option spreads (that is, the butterfly spread, the box spread and the time spread) that already are identified in the margin rules and ascribed a margin requirement. Furthermore, the sum of the margin required on the basic option spreads that can be combined and netted to form a complex spread covers the maximum risk of the complex spread and, as in the Circular, is the margin requirement specified in the proposed rules. Each of the subject complex spread strategies has a known and limited risk when configured as specified in the proposed definitions. The Exchange has proposed to revise current Rule 12.3(c)(5)(C)(6) to provide a margin requirement for each of the long condor spread, short iron butterfly spread and short iron condor spread.

The Exchange noted that the proposed rule prohibits European style options in the case of the calendar version of a complex spread and requires that the interval between each option series be equal in the case of all complex spread strategies. Unlike the Circular, the proposed rules would not limit complex spreads to a margin account. The Exchange also has proposed a revision to Rule 12.3(e)—*Customer Cash Account—Spreads,* that adds the long condor spread, short iron butterfly spread and short iron condor spread as strategies permitted to be established and carried in a cash account, provided they are composed of cash-settled, European style options that all expire at the same time.

The Exchange noted that it has received no negative comments concerning the Circular since it was issued. Moreover, the Exchange is not aware of any negative consequences as a result of applying the margin requirements permitted by the Circular.

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.[7] In particular, the Commission believes that the proposed rule change is consistent with Section 6(b)(5) of the Act,[8] which requires that the rules of the exchange be designed, among other things, to remove impediments to and perfect the mechanisms of a free and open market, and, in general, to protect investors and the public interest. The Commission finds that amending the rules to permit complex option spread strategies that are the net result of combining two or

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

[2] 17 CFR240.19b–4.

[3] SR–CBOE–2004–53: Amendment No. 1. CBOE, in coordination with the New York Stock Exchange, Inc. (''NYSE''), filed the partial amendment to conform the complex spreads strategies to which its rule amendments apply to those of the NYSE.

[4] *See* Securities Exchange Act Release No. 52739 (Nov. 4, 2005); 70 FR 69173 (Nov. 14, 2005).

[5] *See* Securities Exchange Act Release No. 48306 (Aug. 8, 2003), 68 FR 48974 (Aug. 15, 2003) (approving SR–CBOE–2003–24).

[6] *See* Securities Exchange Act Release No. 50164 (Aug. 6, 2004), 69 FR 50405 (Aug. 16, 2004) and Securities Exchange Act Release No. 51407 (Mar. 22, 2005), 70 FR 15669 (Mar. 28, 2005).

[7] In approving this proposal rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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

more spread strategies that are currently recognized in the Exchange's margin rules is consistent with the requirements of Section 6(b)(5) because the amendments will allow the Exchange to set levels of margin that more precisely represent the actual net risk of the option positions in the account and enable customers to implement these strategies more efficiently.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[9] that the proposed rule change (File No. SR–CBOE–2004–53), as amended, be, and it hereby is, approved.

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

Jonathan G. Katz,

Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–52949; File No. SR–CBOE–2005–104]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change to Amend its Rules Governing the Hours of Trading in Equity Options and Narrow-Based Index Options

December 13, 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 December 6, 2005, the Chicago Board Options Exchange, Incorporated (''CBOE'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the CBOE. 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 CBOE proposes to amend its rules governing the hours of trading in equity options and narrow-based index options. The Exchange proposes that these changes become effective February 1, 2006. The text of the proposed rule change is available on the CBOE's Web site (*http://www.cboe.com*), at the CBOE's Office of the Secretary, 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 these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of this rule change is to amend the CBOE's rules governing the hours of trading in equity options and narrow-based index options. Specifically, the CBOE proposes to amend its rules to change the close of the normal trading hours in equity options and in narrow-based index options from 3:02 p.m. (Chicago time) to 3 p.m. (Chicago time). After the change, the time of the close of trading in these CBOE options will correspond to the normal time set for the close of trading on the primary exchanges listing the stocks underlying the CBOE options. The primary exchanges generally close at 3 p.m. (Chicago time).

According to the Exchange, in 1997, the CBOE decided to change its closing time for equity options and narrow-based index options from 3:10 p.m. to 3:02 p.m. At the time, the CBOE determined that there were reasons to continue trading options for a limited period of time after the close of trading of the primary markets for the underlying securities. Specifically, the Exchange believed that the extended period allowed for options traders to respond to late reports of closing prices over the consolidated tape. If the price of a late reported trade on an underlying security was substantially different from the previous reported price, the extended trading session gave options traders the opportunity to bring options quotes in line with the closing price of the underlying security.

However, because of improvements in the processing and reporting of transactions, the CBOE believes that there are no longer significant delays in the reporting of closing prices; and therefore, a two minute session is no longer needed to trade options after the underlying securities close trading. Additionally, the Exchange believes that pricing aberrations can occur if an option is traded when the underlying stock is no longer trading, since there is a close relationship in the price of the underlying stock and the overlying option. As a result, the CBOE believes that it is difficult for the market to price options accurately when the underlying security is not trading.

As noted above, the Exchange also proposes to change the closing time for narrow-based indexes under CBOE Rule 24.6 because these indexes are subject to the same pricing problems as options on individual stocks. According to the CBOE, a significant news announcement on one component of a narrow-based index could have a significant effect on that index. However, the Exchange is not at this time proposing to change the closing time of 3:15 p.m. for broad-based index options because it does not believe that a significant news announcement by the issuer of one component stock of a broad-based index is likely to have a significant effect on the price of that broad-based index.

Accordingly, the CBOE proposes to amend its rules, including CBOE Rules 6.1, 6.2, 12.3, 24.6, and 24.16, in which references are made to a 3:02 p.m. closing time for equity options and narrow-based index options.

The Exchange notes that if it were to unilaterally modify its closing time, the existence of dissimilar closing times applicable to the different options exchanges would likely lead to confusion for options investors and broker–dealers. Accordingly, in September 2005, the Exchange requestedfrom the Commission's Division of Market Regulation express authorization to jointly discuss this operational issue with the other options exchanges who are participants in the Options Price Reporting Authority,[3] and received such authorization.[4] The CBOE believes that all of the options exchanges will make similar changes to

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

[10] 17 CFR 200.30–3(a)(12).

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

[2] 17 CFR 240.19b–4.

[3] *See* letter from Joanne Moffic-Silver, Executive Vice President, General Counsel & Corporate Secretary, CBOE, to Robert L.D. Colby, Deputy Director, Division of Market Regulation (''Division''), Commission, dated September 16, 2005.

[4] *See* letter from Robert L.D. Colby, Deputy Director, Division, Commission, to Joanne Moffic-Silver, Executive Vice President, General Counsel and Secretary, CBOE, dated September 16, 2005.