SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-50853; File No. SR-CBOE-2004-50)

December 14, 2004

Self-Regulatory Organizations; Order Granting Approval to a Proposed Rule Change and Amendment No. 1 Thereto by the Chicago Board Options Exchange, Inc. to Amend its Rules Regarding Limitations on Designated Primary Market-Makers Putting Into Effect Stop and Stop-Limit Orders

On July 29, 2004, the Chicago Board Options Exchange, Inc ("CBOE") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change to amend its rules regarding limitations on Designated Primary Market-Makers ("DPMs") putting into effect stop and stop-limit orders. On October 8, 2004, the Exchange filed amendment No. 1 to the proposed rule change.[3] The proposed rule change and Amendment No. 1 were published for comment in the Federal Register on October 21, 2004.[4] The Commission received no comments on the proposal. This order approves the proposed rule change, as amended.

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 association.[5] In particular, the Commission believes that the proposal is

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

2 17 CFR 240.19b-4.

3 See letter from Angelo Evangelou, Managing Senior Attorney, Legal Division, CBOE, to John Roeser, Senior Special Counsel, Division of Market Regulation, Commission, dated October 6, 2004 ("Amendment No. 1").

4 See Securities Exchange Act Release No. 50542 (October 14, 2004), 69 FR 61879.

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

consistent with Section 6(b)(5) of the Act,[6] which requires that the Exchange's rules promote just and equitable principles of trade, serve to remove impediments to and perfect the mechanisms of a free and open market and a national market system, and to protect investors and the public interest.

The Exchange proposes to automate the handling of stop and stop-limit orders on CBOE's Hybrid trading system such that stop and stop limit orders would be handled automatically by the Hybrid system rather than by the DPM. In addition, the Exchange proposes to eliminate the restrictions which generally prohibit a DPM from initiating a transaction for its own account that would put into effect any stop or stop-limit orders which may be in the book or which the DPM represents as an agent. Under the proposal, stop and stop-limit orders would reside on the Hybrid system invisibly so that the DMP would not know whether a transaction would trigger a stop or stop-limit order. Further, the DPM would no longer handle the stop order at any point or have any influence to purposefully affect triggering the stop or the ultimate execution price of the order. The Commission believes that the restrictions on DPM transactions for stop and stop-limit orders are no longer necessary for orders that are handled by the Hybrid system because such orders are not visible to or handled by the DPM. Accordingly, the Commission finds that the proposal is consistent with the Act.

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6 15 U.S.C. 78f(b)(5).

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act[7] the proposed rule change (SR-CBOE-2004-50), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[8]

Margaret H. McFarland
Deputy Secretary

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7 15 U.S.C. 78s(b)(2).

8 17 CFR 200.30-3(a)(12).