SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-50915; File No. SR-CBOE-2004-52)

December 22, 2004

Self-Regulatory Organizations; Order Granting Approval of a Proposed Rule Change and
Amendment No. 1 Thereto by the Chicago Board Options Exchange, Incorporated to Amend its
"Trigger" Rule to Permit RAES Orders to Automatically Execute Against Orders Resting on the
Exchange's Limit Order Book

On July 30, 2004, the Chicago Board Options Exchange, Incorporated ("CBOE" or

"Exchange"), 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 relating to the Exchange's AutoQuote Triggered Ebook Execution system

("Trigger"). On September 23, 2004, the Exchange amended the proposed rule change.[3] The

proposed rule change, as amended, was published for comment in the Federal Register on

November 22, 2004.[4] The Commission received no comments on the proposal. This order

approves the proposed rule change.

Trigger allows orders resting in CBOE's electronic book to automatically execute in the

limited situation where the bid or offer for a series of options generated by the Exchange's

AutoQuote system (or any Exchange approved proprietary quote generation system used in lieu

of the Exchange's Autoquote system) crosses or locks the Exchange's best bid or offer for that

series as established by a booked order. Currently, Trigger provides for automatic executions of

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

[2]   17 CFR 240.19b-4.

[3]   See letter from David Doherty, CBOE, to Nancy J. Sanow, Assistant Director, Division
        of Market Regulation, Commission, dated September 22, 2004 and accompanying Form
        19b-4 ("Amendment No. 1"). Amendment No. 1 replaced and superceded the original
        filing in its entirety.

orders resting in the book[5] up to the maximum number of contracts permitted to be entered into RAES for that series ("Trigger Volume"). The trading crowd has the ability, but not the obligation, to execute manually the remaining contracts in the book that exceed the Trigger Volume. Any unexecuted contracts in the booked order in excess of the Trigger Volume remain in the book, and the bid or offer generated by Autoquote is one tick inferior to the price of the booked order, so that the disseminated quote does not cross or lock the Autoquote bid or offer.

The Exchange proposes to amend CBOE Rule 6.8(d)(v) to provide that where contracts remain in the book after an execution (or partial execution), or for any series where Trigger has not yet been implemented, orders in RAES for options of that series may, as determined by the appropriate FPC on a class by class basis, be (1) automatically executed; or (2) rerouted on the Exchange's Order Routing System to the crowd PAR terminal (or to another location in the event of system problems or contrary firm routing instructions).

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[6] and, in particular, the requirements of Section 6(b) of the Act[7] and the rules and regulations thereunder. The Commission finds specifically that the proposed rule change is consistent with Section 6(b)(5) of the Act,[8] because, in the Commission's view, the proposed rule change should

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[4] See Securities Exchange Act Release No. 50673 (November 16, 2004), 69 FR 67971.

[5] Such orders are executed against market makers participating in the Exchange's Retail Automated Execution System ("RAES"). CBOE Rule 6.8(d).

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

[7] 15 U.S.C. 78f(b).

[8] 15 U.S.C. 78f(b)(5). Section 6(b)(5) of the Act requires that the rules of a national securities exchange be "designed to prevent fraudulent and manipulative acts and

help facilitate the execution of incoming RAES orders submitted during the Trigger process by

making such orders eligible for automatic execution against the book orders that are crossed or

locked by the Exchange's Autoquote system (or any Exchange approved proprietary quote

generation system used in lieu of the Exchange's Autoquote system). The Commission notes

that the proposed rule change would not change the existing execution process for incoming

RAES orders that are submitted prior to a locked or crossed market.[9]

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practices, to promote just and equitable principles of trade, to foster cooperation and
coordination with persons engaged in regulating, clearing, settling, processing
information with respect to, and facilitating transactions in securities, to remove
impediments to and perfect the mechanisms of a free and open market and a national
market system, and in general, to protect investors and the public interest; and are not
designed to permit unfair discrimination between customers, issuers, brokers, or dealers."

[9]   These orders would continue to be executed in accordance with the RAES procedures set
forth in CBOE Rule 6.8.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[10] that the proposed rule change (SR-CBOE-2004-52) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[11]

Margaret H. McFarland
Deputy Secretary

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[10]   15 U.S.C. 78s(b)(2).

[11]   17 CFR 200.30-3(a)(12).