SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–56114; File No. SR–CBOE–2007–81]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend CBOE's Rules Related To Credit Default Options

July 20, 2007.

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 16, 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 has designated the proposed rule change as one constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule under section 19(b)(3)(A)(i) of the Act[3] and Rule 19b–4(f)(1) thereunder,[4] which renders the proposal effective upon filing with the Commission. 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 Credit Default Options (''CDOs'') in order to set out certain parameters that the Exchange intends to use for determining the applicable share to be allocated to a Successor Reference Entity if there is a CDO contract adjustment due to a Succession Event.[5] The text of the proposed rule change is available on the Exchange's Web site (*http://www.cboe.org/legal*), at the Exchange's principal office, 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 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 Credit Default Options or CDOs, which are binary call options based on Credit Events[6] in one or more debt securities of an issuer or guarantor.[7] The Exchange is now proposing to amend Rule 29.4, *Adjustments,* in order to set out certain parameters that the Exchange intends to use for determining the applicable share to be allocated to a Successor Reference Entity if there is a CDO contract adjustment due to a Succession Event.[8]

By way of background, the cash settlement amount for a CDO is generally $100,000 per contract (equal to an exercise settlement value of $100 multiplied by a contract multiplier of 1,000) upon automatic exercise if the Exchange confirms a Credit Event.[9] If a Credit Event is not confirmed, the cash settlement value will be $0. Among other things, Rule 29.4 provides that CDO contracts will be subject to adjustment and replaced by one or more CDOs derived from Successor Reference Entities based on the applicable share of each Successor Reference Entity. The ''applicable share'' is a percentage amount used to determine the adjusted cash settlement amount and adjusted contract multiplier applicable to each replacement CDO.[10] For example, if there are two Successor Reference Entities that each have an applicable share of 50%, the cash settlement amount for each replacement CDO would be $50,000 (equal to an exercise settlement value of $100 multiplied by the revised contract multiplier of 500).

Currently, the rule is silent regarding the calculation of the applicable share. Based on feedback from potential CDO investors and in order to provide more clarity and certainty to such investors, the Exchange is proposing to codify certain parameters that it intends to utilize in determining the applicable share. As set out in the proposed revisions to the rule text, in determining the applicable share the Exchange, as a general rule, would allocate an equal share to each Successor Reference Entity that has succeeded the Reference Entity as issuer and guarantor of (i) at least one Relevant Obligation and (ii) at least 25% of the principal amount of the original Reference Entity's outstanding debt obligations other than non-recourse indebtedness. If no Successor Reference Entity satisfies the ''at least 25%'' requirement and the original Reference Entity does not survive following the Succession Event, an equal share will be allocated to the Successor Reference Entity(ies) that succeeded to the largest percentage of the original Reference Entity's outstanding debt obligations other than non-recourse indebtedness.[11] These applicable share parameters would override any contradictory provision in the Relevant Obligation(s) terms. In addition, the Exchange intends to apply these parameters to all presently listed and any future-listed CDO contracts.

The following examples illustrate the application of the parameters:

- Assume a Succession Event is confirmed by the Exchange in a Reference Entity with $100 million outstanding in debt obligations and, under the terms of the Succession Event, Successor Reference Entity A succeeds to certain Relevant Obligations and other debt obligations totaling $40 million (40% of the original Reference Entity's outstanding debt obligations), Successor Reference Entity B succeeds to certain Relevant Obligations and other debt obligations totaling $30

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

[2] 17 CFR 240.19b–4.

[3] 15 U.S.C. 78s(b)(3)(A)(i).

[4] 17 CFR 240.19b–4(f)(1).

[5] The terms ''applicable share,'' ''Successor Reference Entity,'' and ''Succession Event'' are described further below.

[6] A ''Reference Obligation'' is a specific debt security of an issuer or guarantor that underlies a CDO. The set of the Reference Obligation and any other debt security obligation(s) of the issuer or guarantor (other than non-recourse indebtedness) that underlie a CDO are referred to as the ''Relevant Obligations.'' A ''Credit Event'' occurs when a Reference Entity 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 Restructuring are defined in accordance with the terms of the Relevant Obligation(s) and subject to certain minimum threshold amounts provided in Rule 29.1(c).

[7] *See* Securities Exchange Act Release No. 55871 (June 6, 2007), 72 FR 32372 (June 12, 2007) (SR–CBOE–2006–84).

[8] A ''Successor Reference Entity'' and a ''Succession Event'' are defined in accordance with the terms of the Relevant Obligation(s). *See* Rule 29.4(a)(1)(i).

[9] *See* Rule 29.1(a).

[10] Every determination by the Exchange pursuant to Rule 29.4 is within the Exchange's sole discretion, is conclusive and binding on all holders and sellers, and is not subject to review. *See* Rule 29.4(d).

[11] If no Successor Reference Entity satisfies the ''at least 25%'' requirement and the original Reference Entity survives, then no Succession Event will be deemed to have occurred and the CDO contract will not be adjusted.

million (30%), and Successor Reference Entity C succeeds to all other Relevant Obligations and other debt obligations totaling $30 million (30%). A CDO contract overlying Relevant Obligations on the original Reference Entity would be adjusted and replaced with three new CDOs, one each for Successor Reference Entities A, B and C, and each having an equal share value equivalent to 33.333%, the ''applicable share,'' of the original CDO contract (*e.g.*, 33.333% of $100,000, or $33,333, which is equal to an exercise settlement value of $100 multiplied by the revised contract multiplier of 333.33).

• Assume a Succession Event is confirmed by the Exchange in a Reference Entity with $100 million outstanding in debt obligations and, under the terms of the Succession Event, Successor Reference Entity A succeeds to certain Relevant Obligations and other debt obligations totaling $45 million (45% of the original Reference Entity's outstanding debt obligations), Successor Reference Entity B succeeds to certain Relevant Obligations and other debt obligations totaling $40 million (40%), and Successor Reference Entity C succeeds to all other Relevant Obligations and other debt obligations totaling $15 million (15%). A CDO contract overlying Relevant Obligations on the original Reference Entity would be adjusted and replaced with two new CDOs, one each for Successor Reference Entities A and B, and each having an equal share value equivalent to 50% of the original CDO contract (*e.g.*, 50% of $100,000, or $50,000, which is equal to an exercise settlement value of $100 multiplied by the revised contract multiplier of 500). Successor Reference Entity C's applicable share would be 0.

• Assume a Succession Event is confirmed by the Exchange in a Reference Entity with $100 million outstanding in debt obligations and, under the terms of the Succession Event, Successor Reference Entities A and B each succeed to certain Relevant Obligations and other debt obligations totaling $23 million each (23% of the original Reference Entity's outstanding debt obligations) and Successor Reference Entities C, D and E each succeed to certain Relevant Obligations and other debt obligations totaling $18 million each (18%). A CDO contract overlying Relevant Obligations on the original Reference Entity would be adjusted and replaced with two new CDOs, one each for Successor Reference Entities A and B, and each having an equal share value equivalent to 50% of the original CDO contract (*e.g.*, 50% of $100,000, or $50,000, which is equal to an exercise settlement value of $100 multiplied by the revised contract multiplier of 500). Successor Reference Entities C, D and E's applicable shares would be 0.

As indicated above, the Exchange is proposing to codify these parameters for determining the applicable share of each Successor Reference Entity based on feedback we have received thus far from potential CDO investors. The Exchange believes that setting forth these parameters would clarify how the Exchange intends to administer the Succession Event confirmation process, thereby affording investors additional clarity and certainty regarding the impact of a Succession Event on an outstanding CDO contract. The Exchange also understands that these parameters would be substantially similar to and generally consistent with the practice in the over-the-counter market.

Finally, the Exchange is also proposing a non-substantive change to Rule 29.4. Specifically, the Exchange is substituting the phrase ''the adjusted cash settlement amount(s) and the adjusted contract multiplier(s)'' for ''adjusted unit of trading and the adjusted exercise price'' in paragraph (c) to be consistent with the use and meaning of those terms elsewhere in the rule text.

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) [12] 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 for a free and open market and a national market system, and, in general, to protect investors and the public interest. As indicated above, the Exchange believes that setting forth the ''applicable share'' parameters would clarify how the Exchange intends to administer the Succession Event confirmation process, thereby affording investors additional clarity and certainty regarding the impact of a Succession Event on an outstanding CDO contract.

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 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 change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule, it has become effective pursuant to section 19(b)(3)(A)(i) of the Act [13] and Rule 19b–4(f)(1) thereunder.[14] At any time within 60 days of the filing of the 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.* Please include File Number SR–CBOE–2007–81 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–2007–81. 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

[12] 15 U.S.C. 78f(b)(5).

[13] 15 U.S.C. 78s(b)(3)(A)(i).

[14] 17 CFR 240.19b–4(f)(1).

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 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of 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–2007–81 and should be submitted on or before August 17, 2007.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[15]

Florence E. Harmon,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–56117; File No. SR–ISE–2007–47

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1 Thereto, To Adopt Generic Listing Standards for Index-Linked Securities

July 23, 2007.

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 June 26, 2007, the International Securities Exchange, LLC (''ISE'' or ''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 substantially prepared by the Exchange. On July 17, 2007, the Exchange filed Amendment No. 1 to the proposed rule change. This order provides notice of the proposed rule change, as amended, and approves the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

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

The Exchange proposes to (1) Adopt generic listing standards for equity index-linked securities (''Equity Index-Linked Securities''), commodity-linked securities (''Commodity-Linked Securities''), and currency-linked securities (''Currency-Linked Securities,'' and together with Equity Index-Linked Securities and Commodity-Linked Securities, collectively, ''Index-Linked Securities'') under new ISE Rule 2130, and (2) make conforming changes to ISE Rules 2100 and 2101 in regard to the adoption of the generic listing standards for Index-Linked Securities. The text of the proposed rule change is available at the Exchange, the Commission's Public Reference Room, and *http://www.ise.com.*

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 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 Exchange proposes to adopt new ISE Rule 2130 (Equity Index-Linked Securities, Commodity-Linked Securities and Currency-Linked Securities), which would provide generic listing standards to permit the trading of Index-Linked Securities on the Exchange pursuant to Rule 19b–4(e) under the Act.[3] The Exchange seeks to be able to list and/or trade Index-Linked Securities without individual Commission approval of each such product pursuant to section 19(b)(2) of the Act.[4] In addition, the Exchange proposes to amend ISE Rule 2101(a) to add Index-Linked Securities to the list of securities that will only trade on the Exchange pursuant to unlisted trading privileges (''UTP''). Thus, while the proposal would allow the Exchange to trade Index-Linked Securities by either listing or trading pursuant to UTP, the Exchange would only trade Index-Linked Securities pursuant to UTP. In order to trade by listing such Index-Linked Securities on the Exchange, the Exchange would first need to seek Commission approval and amend its rules. Finally, the Exchange proposes to amend ISE Rule 2100(c)(7) to add Index-Linked Securities to the definition of Equity Securities.

The Exchange represents that any securities it lists and/or trades pursuant to proposed ISE Rule 2130 will satisfy the standards set forth therein. The Exchange states that within five business days after commencement of trading of an Index-Linked Security in reliance on proposed ISE Rule 2130, the Exchange will file a Form 19b–4(e) with the Commission.[5]

Index-Linked Securities

Index-Linked Securities are designed for investors who desire to participate in a specific market segment by providing exposure to one or more identifiable underlying securities, commodities, currencies, derivative instruments, or market indexes of the foregoing (the ''Underlying Index'' or ''Underlying Indexes'').[6] Index-Linked Securities are the non-convertible debt of an issuer that have a term of at least one year, but not greater than thirty years, and are tied to the performance of the Underlying Index.[7] Index-Linked Securities may or may not make interest payments based on dividends or other cash distributions paid on the components comprising the Underlying

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[15] 17 CFR 200.30–3(a)(12).

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

[2] 17 CFR 240.19b–4.

[3] Rule 19b–4(e) provides that the listing and trading of a new derivative securities product by a self-regulatory organization (''SRO'') shall not be deemed a proposed rule change if the Commission has approved the SRO's trading rules, procedures, and listing standards for the product class that would include the new derivatives securities product, and the SRO has a surveillance program for the product class. *See* 17 CFR 240.19b–4(e)(1).

[4] 15 U.S.C. 78s(b)(2).

[5] *See* 17 CFR 240.19b–4(e)(2)(ii) and 17 CFR 249.820.

[6] The Exchange states that the holder of an Index-Linked Security may or may not be fully exposed to the appreciation and/or depreciation of the underlying component assets. For example, an Index-Linked Security may be subject to a ''cap'' on the maximum principal amount to be repaid to holders or a ''floor'' on the minimum principal amount to be repaid to holders at maturity.

[7] E-mail from Laura Clare, Assistant General Counsel, ISE, to Edward Cho, Special Counsel, Division of Market Regulation, Commission, dated July 18, 2007 (confirming the description of Index-Linked Securities).