

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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2008-32 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-2008-32. 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 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 the Exchange. 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-2008-32 and should be submitted on or before April 23, 2008.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-57556; File No. SR-CBOE-2008-03]

### Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Approving Proposed Rule Change Relating to Complex Orders

March 26, 2008.

#### I. Introduction

On January 14, 2008, 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")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change regarding complex orders. The proposed rule change was published for comment in the **Federal Register** on February 21, 2008.<sup>3</sup> The Commission received no comments regarding the proposal.

#### II. Description of the Proposal

The Exchange is proposing to amend its priority provisions contained in CBOE Rules 6.45, 6.45A and 6.45B to provide that a complex order may be executed at a net debit or credit price with another member without giving priority to equivalent bids (offers) in the individual series legs that are represented in the public customer limit order book, provided that one leg of the complex order betters the corresponding bid (offer) in the public customer limit order book by at least the amount determined by the Exchange on a class-by-class basis. The amount shall be either (i) one minimum trading increment (*i.e.*, \$0.10, \$0.05 or \$0.01, as applicable) or (ii) a \$0.01 increment. Currently, the rules provide that one leg of a complex order must better the corresponding bid (offer) in the public customer limit order book by at least one minimum trading increment.<sup>4</sup>

#### III. Discussion

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.<sup>5</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>6</sup> which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market, and, in general, to protect investors and the public interest.

The Commission believes that it is beneficial for orders in the same securities directed to an exchange to interact with each other, as such interaction promotes efficient exchange trading and protects investors by assuring that orders are executed pursuant to a single set of priority rules that are consistently and fairly applied. The Commission notes that CBOE maintains a complex order book ("COB") to facilitate more automated handling of complex orders traded on the Hybrid System by permitting market participants to place complex orders at net debit/credit prices on a central limit order book.<sup>7</sup> In addition, market participants may choose to enter complex orders into the complex order auction ("COA") for potential price improvement via the automated request for responses process.<sup>8</sup> The Commission believes that the proposed rule change to modify the Exchange's priority provisions for complex orders is appropriate in this circumstance in light of the price competition for complex orders driven by the COB and the availability of the COA. The Commission believes that the proposal could enhance the orderly execution of complex orders on the CBOE and could provide new opportunities for price improvement. The Commission believes that these benefits outweigh the minimal impact on the efficient interaction of public customer orders in

<sup>5</sup> 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).

<sup>6</sup> 15 U.S.C. 78f(b)(5).

<sup>7</sup> See Securities Exchange Act Release No. 51271 (February 28, 2005), 70 FR 10712 (March 4, 2005).

<sup>8</sup> See Securities Exchange Act Release No. 54135 (July 12, 2006), 71 FR 41287 (July 20, 2006). In addition, the Commission notes that the legs of a COA-eligible order may be executed in \$0.01 increments, regardless of the minimum quoting increments that otherwise would apply to the individual legs of the order. See CBOE Rule 6.53C(d)(v). CBOE rules also allow complex orders routed to or resting in the COB to be expressed and executed in \$0.01 increments, thereby providing additional price points at which complex orders could be executed. See CBOE Rule 6.53C(c)(ii).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 57326 (February 13, 2008), 73 FR 9609.

<sup>4</sup> Currently, for example, if a complex order spread market is quoted on a net debit/credit basis at \$0.90 to \$1.10 and there are orders represented in the public customer limit order book in the individual series at each of the respective prices, the complex order may only be executed with another member at a net price of \$0.95 to \$1.05. Under the proposed revisions, a complex order may be executed at a net price of \$0.91 to \$1.09, permitting price improvement at net prices ranging from \$0.91-\$0.94 and \$1.06-\$1.09.

<sup>14</sup> 17 CFR 200.30-3(a)(12).

individual series. Finally, the Commission believes the proposed modification of the priority rules for complex orders is consistent with the Act.

#### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>9</sup> that the proposed rule change (SR-CBOE-2008-03) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>10</sup>

**Florence E. Harmon,**  
Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-57573; File Nos. SR-DTC-2007-14 and SR-NSCC-2007-14]

### Self-Regulatory Organizations; The Depository Trust Company and National Securities Clearing Corporation; Notice of Filing of Proposed Rule Changes, as Amended, To Provide for the Settlement of Institutional Transactions in Conjunction With Each Other Through a Service Called ID Net

March 27, 2008.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on October 15, 2007, The Depository Trust Company ("DTC") and the National Securities Clearing Corporation ("NSCC") each filed with the Securities and Exchange Commission ("Commission") and on December 20, 2007, and on February 25, 2008, each amended their proposed rule changes as described in Items I, II, and III below, which items have been prepared by DTC and NSCC. The Commission is publishing this notice to solicit comments on the proposed rule changes from interested parties.

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

DTC and NSCC are seeking to amend their Rules to provide a new service, "ID Net Service," which will establish settlement netting functionalities for institutional transactions by leveraging the netting and settlement capabilities of NSCC with the existing processing capabilities of DTC.

#### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Changes

In its filing with the Commission, DTC and NSCC included statements concerning the purpose of and basis for the proposed rule changes and discussed any comments it received on the proposed rule changes. The text of these statements may be examined at the places specified in Item IV below. DTC and NSCC have prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.<sup>2</sup>

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

###### 1. Background

Unlike exchange trades and most prime broker trades, most institutional delivery ("ID") transactions do not currently flow through NSCC's Continuous Net Settlement system ("CNS").<sup>3</sup> Rather, these institutional transactions are processed and settled at DTC. The ID Net Service will allow subscribers to the service to net all eligible affirmed institutional transactions at DTC against their CNS transactions at NSCC.

The ID Net Service will accept affirmed institutional transactions that are eligible for the ID Net Service from clearing agencies registered pursuant to Section 17A of the Act, other entities (such as Omgeo Matching Services—US LLC) which have obtained an exemption from clearing agency registration from the Commission, and Qualified Vendors, as defined in the rules of the New York Stock Exchange, the National Association of Securities Dealers, or other self-regulatory organizations (entities with exemptions from clearing agency registration or Qualified Vendor are collectively referred to as "Affirming Agencies"), and net the broker-dealer side of such transaction with the broker-dealer's CNS obligations.

Eligibility for the ID Net Service will require that a broker-dealer be an NSCC Member eligible for CNS processing and a DTC Participant ("ID Net Firm") and that a bank be a DTC Participant ("ID Net Bank") (collectively "ID Net

Subscribers"). In addition, eligibility for ID Net Service processing will be based on the underlying security being processed, the type of transaction submitted for processing, and the timing of affirmation. Participation in the ID Net Service will be voluntary and will be governed by the rules and procedures applicable to the ID Net Service as described below. All ID Net Subscribers will be required to enter into separate ID Net Subscriber agreements with NSCC and/or DTC, as applicable, governing their use of the ID Net Service.

###### 2. Current Processing

A typical ID transaction is currently processed as follows. An Investment Manager, acting on behalf of its Institutional client, executes a transaction with Firm A. The Investment Manager, or a Custodian acting on its behalf, and Firm A submit the transaction data to an Affirming Agency (for example, Omgeo) for confirmation/affirmation. Once affirmed, the Affirming Agency's automated systems transmit settlement instructions for the matched transaction to DTC's Inventory Management System ("IMS") to be processed. These ID transactions are not netted, rather they are settled on a trade-for-trade basis at DTC.

###### 3. Proposed Service

In order to extend netting benefits and efficiencies to institutional transactions, NSCC will extend its clearance and settlement functionalities to net the broker-dealer's side of institutional transactions with the broker-dealer's broker-to-broker activity that is eligible for processing through NSCC's CNS service.

Most equity securities that are currently eligible for CNS processing will be eligible for ID Net Service processing. However, ID Net Services will initially exclude the following: (1) Corporate and municipal bonds and unit investment trust issues; (2) new issue securities in their first day of IPO trading; (3) securities that are IPO tracked since the use of omnibus accounts would bypass the tracking system; (4) trades in issues that are currently undergoing a mandatory or voluntary reorganization; (5) trades in securities with a CNS buy-in; and (6) trades in securities appearing on the Commission's Regulation SHO list.<sup>4</sup>

<sup>2</sup> The Commission has modified the text of the summaries prepared by DTC and NSCC.

<sup>3</sup> NSCC's CNS is an automated accounting and securities settlement system that centralizes and nets the settlement of compared and recorded securities transactions and maintains an orderly flow of security and money balances. CNS provides clearance for equities, corporate bonds, unit investment trusts, and municipal bonds that are eligible for book-entry transfer at DTC.

<sup>4</sup> NSCC has determined that certain security types may have a relatively high rate of delivery failure or may disrupt normal processing of transactions in the ID Net Service. Such securities will initially be excluded from the service; however, as experience

Continued

<sup>9</sup> 15 U.S.C. 78s(b)(2).

<sup>10</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).