

nearest expiration month. These limits are identical to the limits applicable to options on the Russell 2000 Index as specified under CBOE Rule 24.4(a).

Exchange Rules Applicable. Except as modified herein, the Rules in Chapter XXIV will govern the trading of options on the aforementioned Russell Indexes on the Exchange. Additionally, CBOE affirms that it possesses the necessary systems capacity to support new series that would result from the introduction of the Russell Index options. CBOE also has been informed that OPRA has the capacity to support such new series.⁵

2. Statutory Basis

The proposed rule change is consistent with section 6(b) of the Act in general,⁶ and furthers the objectives of section 6(b)(5) of the Act in particular,⁷ in that it will permit trading in options on a broad range of indexes pursuant to rules designed to prevent fraudulent and manipulative acts and practices and to protect investors and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

This proposed rule change does not impose any burden on competition that is 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

No written comments were solicited or received with respect to the proposed rule change.

III. 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. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. 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. Copies of such filing will also be available for inspection and copying at the principal office of CBOE. All submissions should refer to File No. SR-CBOE-2003-17 and should be submitted by October 31, 2003.

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

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, and, in particular, the proposal is consistent with section 6(b)(5) of the Act.⁸ Specifically, the Commission believes that the listing and trading of options on the Russell Indexes will serve to promote the public interest, as well as to help remove impediments to a free and open securities market. The Commission also believes that the trading of options on the Indexes will allow investors holding positions in some or all of the securities underlying the Indexes to hedge the risks associated with their portfolios more efficiently and effectively. Accordingly, the Commission believes that the options on the Russell Indexes will provide investors with an important trading and hedging mechanism that should reflect accurately the overall movement of stocks in the large capitalization range of U.S. equity securities.⁹ By broadening the hedging and investment opportunities of investors, the Commission believes that the trading of options on the Russell Indexes will service to protect investors, promote the public interest and contribute to the maintenance of fair and orderly markets.¹⁰

The trading of options on the Russell Indexes, however, raises several issues related to the design and structure of the

Indexes, customer protection, surveillance, and market impact. For the reasons discussed below, the Commission believes that the CBOE has adequately addressed these issues.

A. Index Design and Structure

The Commission finds it is appropriate and consistent with the Act to classify the Indexes as broad-based, and thus, to permit Exchange rules applicable to the trading of broad-based index options to apply to the Russell Indexes options. Specifically, the Commission believes that the Indexes are broad-based because they reflect a substantial segment of the U.S. equities market, in general, and the largest 3,000 U.S. securities, in particular. The Russell Indexes cumulatively range in market capitalization from a high of \$8.6 trillion (Russell 3000) to a low of \$278 billion (Russell 2000 Growth). The number of index components range from a high of 2,933 (Russell 3000) to a low of 453 (Russell Midcap Growth). As of February 28, 2003, the stocks comprising the Russell 3000 Index had an average market capitalization of \$2.93 billion ranging from a high of \$239 billion to a low of \$2 million. All of the remaining Russell Indexes are subsets of the Russell 3000 Index. The component securities are diverse, actively traded, and represent a broad cross-section of highly capitalized securities in the U.S. equity market. CBOE has also represented that all of the component securities of the Russell Indexes are reported securities, and over 83% of the Russell 3000 Index components satisfied CBOE's listing criteria for equity options as set forth in CBOE Rule 5.3, representing over 99% of the index weight.¹¹ Accordingly, the Commission believes that it is appropriate for the Exchange to classify the Indexes as broad-based and apply its rules governing broad-based index options.

B. Potential for Manipulation

The Commission also believes that the large number of component securities, the capitalization and weighting methodology of the Indexes, and the depth of liquidity of the component securities comprising the Indexes,

⁸ 15 U.S.C. 78f(b)(5).

⁹ Pursuant to Section 6(b)(5) of the Act, the Commission must predicate approval of any new securities product upon a finding that the introduction of such product is in the public interest. Such a finding would be difficult with respect to a product that served no hedging or other economic function, because any benefits that might be derived by market participants likely would be outweighed by the potential for manipulation, diminished public confidence in the integrity of the markets, and other valid regulatory concerns. In this regard, the trading of listed index options will provide investors with a hedging vehicle that should reflect the overall market of stocks representing a substantial segment of the U.S. securities market.

¹⁰ In approving this rule, the Commission notes that it has also considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹¹ The CBOE's option listing standards, which are uniform among the options exchanges, provide that a security underlying an option must, among other things, meet the following requirements: (1) The public float must be at least 7 million shares; (2) there must be a minimum of 2,000 stockholders; (3) trading volume must have been at least 2.4 million shares over the preceding twelve months; and (4) the market price per share must have been at least \$ 7.50 for a majority of business days during the preceding three calendar months. See Interpretations and Policies.01 to CBOE Rule 5.3.

⁵ See Exhibit D to this filing.

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).