

September 26, 2007

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: NYSE Arca Comments Regarding the Chicago Board Options Exchange, Inc.'s Proposal to Expand the Penny Quoting Pilot Program (SR-CBOE-2007-98)

Dear Ms. Morris:

NYSE Arca, Inc. ("NYSE Arca" or "Exchange") appreciates this opportunity to comment on the proposal (the "Proposal") of the Chicago Board Options Exchange, Inc. ("CBOE") relating to an expansion of the Penny Pilot Program (the "Pilot Program" or "Pilot"). The Exchange believes that the Proposal presents several issues that are outside the scope of the Pilot Program as set forth by the Securities and Exchange Commission (the "Commission" or "SEC"). We request that the Commission address these issues as noted below.

At first blush, the Proposal mirrors the expanded terms of the Pilot Program proposed by the other options exchanges. Commencing on September 28, 2007, twenty-two (22) additional, actively-traded options classes will be included to the Pilot Program. Next, on March 28, 2008, the options exchanges would further expand the Pilot Program for a one-year period and add twenty-eight (28) option classes to the Pilot. Ultimately, if approved, the Pilot Program will consist of sixty-three (63) options classes. This program was the result of the Commission's studied approach to expanding the Pilot Program and balancing the often competing interests of the options exchanges. As you know, NYSE Arca has historically and consistently supported penny trading in options.

The CBOE, however, proposed two (2) additional options classes to be included as part of the Pilot. These classes were not otherwise part of the discussion that preceded the agreed upon phased expansion. In particular, the CBOE argues that certain "related" products should be quoted in the same minimum price variation ("MPV") or increment for consistency and competitive reasons. The Exchange is concerned about an arbitrary expansion of the Pilot beyond the additional 22 (then total 63) classes.

The phased expansion of the Pilot Program by the options exchanges has been proposed only after the Commission carefully evaluated the results of the initial six-month Pilot Program. Based on this evaluation and taking into consideration feedback from multiple participants, the Commission determined to expand the Pilot by adding a set amount of additional classes based on several criteria, including: multiple listing status, the level of activity and general premium value. Using these metrics, the Commission decided to expand the pilot to include 22 securities which are among the most actively traded options, by volume, across all six options exchanges. CBOE's



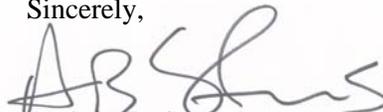
proposed inclusion of the Mini-SPX Index Options (XSP) and the Dow Jones Industrial Average Index Options (DJX) in the Pilot, however, is not wholly consistent with the criteria or agreed upon proposal.¹ Instead, the CBOE is seeking to unilaterally expand the Pilot Program with the inclusion of two (2) products that it may only list and trade due to exclusive licensing agreements.

The CBOE is seeking to include XSP and DJX in the Pilot as a result of both SPDR options (SPY) and Diamond options (DIA) becoming part of the Pilot Program. According to their proposal, the CBOE “believes it is important that these products, DIA and DJX, SPY and XSP, have the same minimum increments for consistency and competitive reasons.” While we believe that CBOE’s reasoning of trading an index product related to any exchange traded fund should be included in the Pilot, we find that CBOE’s approach is woefully incomplete. CBOE did not also request a penny increment for the other S&P 500 index classes, nor in the NDX or RUT classes. As a result, if approved, CBOE will be permitted to arbitrarily expand the Pilot to suit its needs. This result runs counter to the otherwise careful and studied approach taken by the Commission.

For the reasons discussed above, NYSE Arca respectfully requests the Commission to either reject CBOE’s proposal to include DJX and XSP in their Pilot or permit trading in penny increments for the other S&P 500 index classes, as well as the NDX or RUT classes. We believe the latter approach is consistent with our efforts to expand penny trading in all options, across the board.

If you have any questions, please contact me at (312) 442-7632 or Peter Armstrong at (415) 393-4232.

Sincerely,



Andrew B. Stevens

cc: Erik Sirri, Director, Division of Market Regulation
Robert L.D. Colby, Deputy Director, Division of Market Regulation
Elizabeth K. King, Associate Director, Division of Market Regulation
Heather Seidel, Assistant Director, Division of Market Regulation

¹ Ranked in terms of average daily volume, for the month of August, DJX was number 61 and XSP was number 426 – well outside the parameters designed by the Commission.