

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 CBOE hereby proposes to amend Exchange Rule 24.9 to permit the listing of long-term index option series ("LEAPS") with a duration of up to sixty months (five years). The text of the proposed rule change is available at the Office of the Secretary, CBOE, and at the Commission.

## **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 placed specified in Item IV below. The CBOE 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*

The purpose of the proposed rule change is to permit the Exchange to list index LEAPS with a duration of up to sixty months (five years).<sup>3</sup> Presently, the Exchange has authority pursuant to CBOE Rule 24.9(b) to list index LEAPS that expire from twelve to thirty-six months from the time they are listed. The Exchange represents that there has been increasing member firm and customer interest in longer term instruments. The Exchange, therefore, is proposing to amend Exchange Rule 24.9 to permit the listing of index options with up to six months until expiration. In addition, the Exchange proposes to amend Rule 24.9 to allow for up to ten additional expiration months for index LEAPS, as opposed to the six additional months currently allowed.

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act, in general, and

furthersthe objectives of Section 6(b)(5) of the Act,<sup>4</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest.

### *(B) Self-Regulatory Organization's Statement on Burden on Competition*

The Exchange does not believe that the proposed rule change will impose any inappropriate burden on competition.

### *(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

Written comments on the proposed rule change were neither solicited nor received.

## **III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

- (a) By order approve such proposed rule change, or
- (b) Institute proceedings to determine whether the proposed rule change should be disapproved.

## **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. 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 Section, 450 Fifth Street, NW., Washington, DC Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to File No. SR-CBOE-95-02 and should be submitted by February 22, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>5</sup>

**Margaret H. McFarland,**

*Deputy Secretary,*

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[Release No. 34-35280; File No. SR-CBOE-94-43]

## **Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 to Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to the Listing of Regular and Long-Term Index Options on the S&P SmallCap 600 Index**

January 25, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on November 8, 1994, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") 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 by the self-regulatory organization. The Exchange filed Amendment No. 1 to the proposed rule change on January 9, 1995.<sup>2</sup> 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 CBOE proposes to amend its rules to provide for the listing and trading on the Exchange of cash-settled, European-style index options on the Standard & Poor's SmallCap 600 Index ("S&P SmallCap 600" or "Index"), a broad-based index designed to measure the performance of small capitalization stocks.

<sup>3</sup> 17 CFR 200.30-3(a)(12) (1994)

<sup>4</sup> 15 U.S.C. § 78s(b)(1).

<sup>5</sup> Amendment No. 1 provides the following information regarding the Index: (1) Industry groups represented; (2) price and volume information on the component stocks; and (3) component stock selection criteria. See letter from Eileen Smith, Director, Product Development, CBOE, to Steve Youhn, Division of Market Regulation, Commission, dated January 5, 1995 ("Amendment No. 1").

<sup>4</sup> 15 U.S.C. § 78f(b)(5) (1988).

<sup>3</sup> The Exchange withdrew its proposed rule change to list equity LEAPS with a duration of up to five years. See Securities Exchange Act Release No. 35032 (November 30, 1994), 59 FR 63149 (December 7, 1994) (notice of File No. SR-CBOE-94-42) and letter from Nancy L. Nielsen, Assistant Corporate Secretary, CBOE, to Sharon Lawson, Assistant Director, Office of Market Supervision Division of Market Regulation, Commission, Dated January 18, 1995.

## 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 self-regulatory organization 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 IV below. The self-regulatory organization 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

The purpose of the proposed rule change is to permit the Exchange to list and trade cash-settled, European-style stock index options on the S&P SmallCap 600. The S&P SmallCap 600 is a capitalization-weighted index of 600 domestic stocks chosen for market size, liquidity, and industry group representation.

#### (1) Index Design

The S&P SmallCap 600 Index has been designed to measure the performance of small capitalization stocks. The Index is a capitalization-weighted index of U.S. stocks with each stock affecting the Index in proportion to its market capitalization.

As of October 19, 1994, the 600 component stocks ranged in capitalization from \$933 million to \$46 million, and the market capitalization of the Index totalled \$181 billion. The largest stock accounted for 0.51% of the total weighting of the Index, while the smallest accounted for 0.03%. The median capitalization of the firms in the index was \$267 million. A breakdown of the stocks by trading markets shows that Nasdaq represents 53% of the Index (318 issues), the New York Stock Exchange represents 43% (257 issues), and the American Stock Exchange represents 4% (25 issues). The Nasdaq stocks in the Index are authorized as Nasdaq National Market securities, the top tier of Nasdaq stocks.

A total of 98 industry groups are represented in the Index. The top five groups and their weights are: (1) Computer Software and Services—9.01%; (2) Insurance—5.13%; (3) Savings and Loans—4.88%; (4) Health Care Services—4.31%; and (5) Banks—Regional—4.26%. During the period April through September 1994, the

average monthly volume for the 600 stocks ranged from 93,000 to 25.3 million shares. The average monthly volume was 1.9 million shares. The top 100 stocks account for 33.42% of the index, while the bottom 100 stocks account for 5.69% of the Index. The prices for each of the components ranged from \$1.375 to \$64.5. The average price was \$19.37. The shares outstanding for each of the stocks ranged from 4.0 million to 189.0 million with an average of 17.8 million.<sup>3</sup>

S&P relies on several criteria to select Index component stocks. Among other things, stocks must trade on the New York Stock Exchange, American Stock Exchange, or be Nasdaq National Market securities; stocks must trade above \$1.00 at the time of selection; companies with 50% or more of their shares outstanding held by another corporation are not included; companies with 60% or more of their shares held by insiders are not included; stocks must have at least a six month trading history; stocks that do not trade on any three days during a 12-month period are not included; and share turnover (annual trading volume as a percent of shares outstanding) has to exceed 20% on an annualized basis. Index component stocks are then chosen from the field of stocks that meets these criteria so that they balance the economic sector weightings, described above.<sup>4</sup>

#### (2) Calculation

The methodology used to calculate the value of the Index is similar to that used to calculate the value of the S&P 500 Index. The value of the Index is determined by adding the price of each stock times the number of shares outstanding. This sum is then divided by an index divisor ("Index Divisor") which gives the Index a value of 100 on its base date of December 31, 1993. The Index Divisor is adjusted for pertinent changes as described below in the section titled "Maintenance." The Index has a closing value of 96.82 on September 30, 1994.

#### (3) Maintenance

The S&P SmallCap 600 will be maintained by S&P. To maintain continuity of the Index, the Index Divisor will be adjusted to reflect certain events relating to the component stocks. These events include, but are not limited to, adjustments for company additions and deletions, share changes, stock splits, stock dividends, and stock price adjustments due to company restructurings or spinoffs. Some

<sup>3</sup> See Amendment No. 1, *supra* note 2.

<sup>4</sup> *Id.*

corporate actions, such as stock splits and stock dividends, require simple changes in the common shares outstanding and the stock prices of the companies in the Index. Other corporate actions, such as share issuances, change the market value of the Index and require an Index Divisor adjustment as well.

#### (4) Index Option Trading

In addition to regular Index options, the Exchange may provide for the listing of long-term (up to three years expiration) index options series ("LEAPS") and reduced-value LEAPS on the Index. For reduced-value LEAPS, the underlying value would be computed at one-tenth of the Index level. The current and closing index value of any such reduced-value LEAP will, after such initial computation, be rounded to the nearest one-hundredth.

The Exchange seeks to have the discretion to list series in 2½ point intervals when the Index level falls below 200. The minimum tick size for series trading below \$3 will be 1/16 and for series trading above \$3 the minimum tick will be 1/8th. The trading hours for options on the Index will be from 8:30 a.m. to 3:15 p.m. Chicago time.

#### (5) Exercise and Settlement

The proposed options on the Index will expire on the Saturday following the third Friday of the expiration month. Trading in the expiring contract month will normally cease at 3:15 p.m. (Chicago time) on the immediately preceding Thursday.<sup>5</sup> The Index multiplier will be 100. The exercise settlement value of the Index at option expiration will be calculated by S&P based on the opening prices of the component securities on the business day prior to expiration ("A.M. Settlement"). If a stock fails to open for trading, the last available price on the stock will be used in the calculation of the index, as is done for currently listed indexes.

#### (6) Surveillance

The Exchange will use the same surveillance procedures currently used for each of the Exchange's other index options to monitor trading in Index options and Index LEAPS on the S&P SmallCap 600. For surveillance purposes, the Exchange will have complete access to information

<sup>5</sup> When the last trading day is moved because of Exchange holidays (such as when CBOE is closed on the Friday before expiration), the last trading day for expiring options will be Wednesday and the exercise settlement value of Index options at expiration will be determined at the opening of regular Thursday trading.

regarding trading activity in the underlying securities.

#### (7) Position Limits

The Exchange proposes to establish position limits for options on the S&P SmallCap 600 at 100,000 contracts on either side of the market, and no more than 60,000 of such contracts may be in the series in the nearest expiration month. The Exchange represents that these limits are roughly equivalent, in dollar terms, to the limits applicable to comparable small-capitalization indexes, including the Wilshire Small Cap Index and the Russell 2000 Index.

#### (8) Exchange Rules Applicable

As modified herein, the Rules in Chapter XXIV will be applicable to S&P SmallCap 600 options.

CBOE represents that it has the necessary systems capacity to support new series that would result from the introduction of S&P SmallCap 600 options. CBOE has also been informed that the Options Price Reporting Authority ("OPRA") believes that it has the capacity to support such new series.<sup>6</sup>

The CBOE believes that the proposed rule change is consistent with Section 6(b) of the Act in general, and furthers the objectives of Section 6(b)(5) in particular in that it will permit trading in options based on the S&P SmallCap 600 pursuant to rules designed to prevent fraudulent and manipulative acts and practices and promote just and equitable principals of trade, and thereby will provide investors with the ability to invest in options based on an additional index.

#### (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.

#### (C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

Written comments on the proposed rule change were neither solicited nor received.

### III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such

longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (a) By order approve such proposed rule change, or
- (b) Institute proceedings to determine whether the proposed rule change should be disapproved.

### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. 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 Section, 450 Fifth Street, NW., Washington, DC. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to File No. SR-CBOE-94-43 and should be submitted by February 22, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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[Release No. 34-35275; File No. SR-NASD-94-68]

### Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Order Granting Temporary Approval and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 2 of Proposed Rule Change to Extend the Interim SOES Rules

January 25, 1995.

#### I. Introduction

On December 1, 1994, the National Association of Securities Dealers, Inc.

("NASD" or "Association") filed with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change 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> The NASD proposes to extend through March 27, 1995 certain of the prior changes to its Small Order Execution System ("SOES") that are scheduled to expire today. The currently effective prohibition on short selling in SOES would not be extended.

Specifically, the NASD proposes to extend changes that: (1) Reduced the maximum size order eligible for execution through SOES from 1,000 shares to 500 shares; (2) reduced the minimum exposure limit for "unpreferred" SOES orders from five times the maximum order size to two times the maximum order size, and eliminated the exposure limits for "preferred orders"; and (3) implemented an automated function for updating market maker quotations when the market maker's exposure limit has been exhausted (collectively referred to hereinafter as the "Amended Interim SOES Rules").

In 1993, the Commission approved these changes to the SOES rules (as well as a short selling prohibition) on a one-year pilot basis.<sup>3</sup> Approval on a pilot basis was intended to permit the Commission to reconsider the effects of the rules in light of experience with the rules' operation in the marketplace.<sup>4</sup> The NASD now seeks extension of certain of these rules.

The NASD originally sought extension of the Amended Interim SOES Rules through May 1, 1995. Notice of that proposed rule change appeared in the **Federal Register** on December 16, 1994.<sup>5</sup> The Commission received comments from 58 commenters, with 12 supporting the proposal and 46 opposing it. On January 23, 1995, the NASD amended its proposal to request extension of the Amended Interim SOES Rules until March 27, 1995, rather than

<sup>1</sup> 15 U.S.C. § 78s(b)(1) (1988).

<sup>2</sup> 17 CFR 240.19b-4 (1994).

<sup>3</sup> Securities Exchange Act Release No. 33377 (Dec. 23, 1993), 58 FR 69419 (Dec. 30, 1993) (approving the Interim SOES Rules on a one-year pilot basis effective January 7, 1994). See also Securities Exchange Act Release No. 33424 (Jan. 5, 1994) (order denying stay and granting interim stay through January 25, 1994) and Securities Exchange Act Release No. 33635 (Feb. 17, 1994) (order denying renewed application for stay).

<sup>4</sup> Securities Exchange Act Release No. 33377 (Dec. 23, 1993), 58 FR 69419 (Dec. 30, 1993).

<sup>5</sup> The NASD amended the proposed rule change twice since it was originally filed with the Commission on December 1, 1994. The first amendment was included in the Commission's original notice. Securities Exchange Act Release No. 35077 (Dec. 9, 1994), 59 FR 65105 (Dec. 16, 1994).

<sup>6</sup> See letter from Joseph P. Corrigan, Executive Director, OPRA, to Eileen Smith, Director, Product Development, CBOE, dated October 26, 1994.

<sup>7</sup> 17 CFR 200.30-3(a)(12) (1994).