with the Panel in evaluating important legal, evidentiary and procedural questions.

The Exchange, accordingly, is proposing to amend its Constitution and Rules to provide for professional hearing officers to serve as chairmen and voting members of Exchange Disciplinary Panels.[3] The remaining members of Disciplinary Panels would continue to be drawn from the ranks of practicing securities industry professionals as currently provided for in the Exchange's Constitution and Rules.

ii. Indemnification of Persons Serving on Disciplinary Panels and Exchange Officials

The Exchange has noted that the indemnification provision of the Exchange's Constitution does not specifically mention persons serving on Disciplinary Panels and Exchange Officials. While the Exchange believes that there are sound arguments for concluding that persons serving on Disciplinary Panels and Exchange Officials already are covered by the Exchange's indemnity provision, the Exchange is proposing to amend the Constitution to make this coverage explicit in order to help ensure that the Exchange can continue to attract and retain the services of qualified persons to serve in these capacities.

iii. Board Review of Disciplinary Panel Decisions

Disciplinary appeals are heard by the Executive Committee of the Board under delegated authority from the Board of Governors as authorized by Article V, Section 1(b) of the Constitution in all instances except where a member or member organization is expelled or suspended for a period of one year or more. In such instance, a review by the full Board is required. It is proposed that the Executive Committee be the delegated authority to hear *all* appeals (including matters the Board calls for review) regardless of the nature of the respondent or the penalty. This would make the appeal process less cumbersome, while at the same time eliminating a special review privilege (*i.e.*, full Board review) that exists for members and member organizations, but not for their employees. The full Board would retain authority to review disciplinary decisions when such review is deemed appropriate.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b)[4] of the Act in general and furthers the objectives of Section 6(b)(7)[5] in particular, in that the proposed rule change provides for a fair procedure for the disciplining of Exchange members and persons associated with its members.

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

The Amex 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

Written comments were neither solicited nor received with respect to the proposed rule change.

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 reason 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, 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. 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 the Amex. All submissions should refer to the file number in the caption above and should be submitted by April 14, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[6]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98–7517 Filed 3–23–98; 8:45 am]

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[3] The Amex expects that the ''professional hearing officer will be an individual who is a lawyer who has had litigation experience in the securities area. It is possible that such individual, or his firm, may provide advice or services to the Exchange on matters that do not relate to the investigation or preparation of disciplinary matters.'' *See* Amendment No. 2 at p. 2.

[4] 15 U.S.C. 78f.

[5] 15 U.S.C. 78f(b)(7).

[6] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–39766; International Series Release No. 1123; File No. SR–CBOE–97–64]

Self-Regulatory Organizations; Order Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment Nos. 1 and 2 by the Chicago Board Options Exchange, Incorporated, Relating to the Listing and Trading of Warrants on the Asia Tiger 100 Index

March 17, 1998.

I. Introduction

On December 5, 1997, 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''),[1] and Rule 19b–4 thereunder,[2] the proposed rule change to list and trade warrants on the Asia Tiger 100 Index (''Asia 100'' or ''Index''). Notice of the filing appeared in the **Federal Register** on February 4, 1998.[3] No comments were received concerning the proposed rule change. On February 24, 1998 and March 13, 1998 the Exchange filed Amendment Nos. 1 and 2, respectively, to the proposed rule change.[4] This order

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

[2] 17 CFR 240.19b–4.

[3] Securities Exchange Act Release No. 37584 (January 27, 1998) 63 FR 5825.

[4] See letters from Timothy Thompson, Senior Attorney, CBOE to Michael Walinskas, Senior Special Counsel, Division of Market Regulation, SEC dated February 24, 1998 (''Amendment No. 1'') and March 13, 1998 (''Amendment No. 2''). Amendment No. 1 sets forth maintenance standards for the Index and provides information regarding the calculation and dissemination of the Index

approves the CBOE's proposal, as amended.

II. Description of the Proposal

The purpose of the proposed rule change is to permit the Exchange to list and trade warrants based on the Index.

A. Design of the Index

The Exchange represents that the Index is comprised of the 100 highest capitalized stocks from eight major Asian markets.[5] The stocks were selected for their market capitalization and liquidity. The CBOE believes that they are representatives of the composition of the broader equity markets in each of the eight countries. The component securities represent several industry groups including: Airlines; financial institutions; high technology; real estate; telecommunications; and utilities.

The total capitalization of the component securities in the Index on February 11, 1998 was approximately $549 billion.[6] The average capitalization on that date was approximately $5.49 billion. The individual market capitalization of these component securities ranged from approximately $682 million to $46 billion on February 11, 1998. The component securities had average U.S. dollar volume per day for 1997 that ranged from $146 million to $38 billion. As of February 11, 1998, the highest weighted component security (HSBC Holdings, PLC of Hong Kong) comprised approximately 6.00% of the Index weight while the lowest weighted component security (Hang Lung Development, Co. of Hong Kong) comprised approximately 0.15% of the Index weight. The five highest weighted securities comprised approximately 21.54% of the Index weight.[7]

The CBOE represents that the Asia 100 is a modified capitalization-weighted index. The Index will be adjusted annually to ensure that each represented country's stocks are capitalization-weighted and reflected in a manner that ensures the weighting of each stock is based on its market value in relation to the market value of the other stocks from that country. Separately, each country is weighted based on the relative size of its stock market in relation to that of other Asia 100 countries. The CBOE believes this design gives the Index significant coverage of the countries' largest and most liquid stocks and a proxy for the stock portfolios held by foreign investors in these countries. The CBOE also believes that warrants on the Index will provide investors with a low-cost means of participating in the performance of the Asian economy and hedging against the risk of investing in those economies.

Country weights will be based upon the relative size of each country's stock market at the time the Index is established. Country weights will be rounded to the nearest 2% based on the International Federation of Stock Exchange month-end market values used in the country rebalancing. For example, a country with an Asia 100 market share of 28.68% will have a country weight of 28%. Once a country's weight is determined, the individual stocks within a country will be selected based on the Stock Selection Criteria, as defined below.

When required to make the country weights sum up to 100% due to rounding, the country whose weight would normally be rounded up (down) will be rounded down (up) if the weight is the closest to the midpoint between two weights. Country weights are capped at 40% for the largest country and at 15% for a country with which there is not a comprehensive surveillance sharing agreement (''CSSA''), as defined below.

B. Initial Listing and Maintenance Criteria and Rebalancing

To be included and maintained in the Index, a stock must meet the following minimum Stock Selection Criteria: (1) The minimum market value of the company during the past year must have been greater than $200 million; (2) the minimum dollar trading value of turnover of the stock must have been $100 million in the past year;[8] (3) the minimum monthly trading value of the stock in any month during the past year must have been greater than $5 million,[9] (4) the stock must have traded on at least 95% of the country's trading days; and (5) at least 20% of a company's common stock (measured by outstanding shares) must be available to foreign investors. In addition to the five maintenance criteria discussed above, the CBOE will notify the Commission prior to: adding a country to, or deleting a country from, the Index; or reducing the number of component securities below 95 securities.[10]

The country weights will be rebalanced annually (most likely in March) to address, among other things, a country's stock market expansion or contraction in relation to the markets of the other countries represented in the Index. There will be a 4% limit on the change that will be made to a country's weight at the rebalancing so that a single year aberration for a particular market does not improperly affect the Index. The weights of other countries will be adjusted accordingly. A country's whose weight falls below 1% may be retained in the Index based on the Exchange's determination of foreign investment in the country and other factors. CBOE staff may determine to retain a country's weight in the Asia 100 Index at no more than the maximum 2% level after its weight has fallen below 1% of the market value of the countries represented in the Index. Weights of the other countries will be adjusted accordingly.

In addition, stock weights within a country will be rebalanced semi-annually (most likely in March and September) according to the five criteria listed above and based on the capitalization of stocks and the country weights determined at the annual country weighting rebalancing as of the last business day of the previous. year.[11] Each stock's price on the day of the rebalancing will be multiplied by the

value. Amendment No. 2 provides technical clarifications to the Index maintenance standards and rebalancing procedures.

[5] The eight Asian markets included in the index are: Hong Kong; Indonesia; Malaysia; the Philippines; Singapore; South Korea; Taiwan; and Thailand.

[6] All values are express in U.S. dollars at the prevailing rates on February 11, 1998.

[7] The text of the proposed rule change and Amendment No. 1 contains a list of the component securities including the countries they represent, the individual component security weights, the country Index weights, average daily trading value for each security and country and market capitalization for each security and country.

[8] To calculate this figure, the CBOE staff takes the following steps: first, an average daily volume (''ADV'') is obtained for each component security for the previous year from Bloomberg; second, each component security's ADV is multiplied by the number of trading days in the year for the relevant country; and third, the turnover value is converted to U.S. dollars using Bloomberg's calculation of the average exchange rate in the previous year for the relevant country. See Amendment No. 1, supra note 4.

[9] To calculate this figure, the CBOE staff multiplies the average daily price by the total monthly trading volume. See letter from Amendment No. 2, supra note 4.

[10] The Commission notes that if the Index fails to meet the established maintenance or notification criteria, CBOE may be required to: re-classify the Index as narrow-based; remove certain securities from the Index; or discontinue listing new series of Index warrants. In addition, if the composition of the Index was to substantially change, the Commission's decision regarding the appropriateness of the Index's current maintenance standards would be reevaluated and additional approval under Section 19(b) of the Act may be necessary to continue to list Index products. In addition, the Commission notes that the CBOE has inquired whether it would be required to submit to a Section 19(b) filing in order to list equity linked notes overlying the Index. The staff does not believe that a new filing is warranted provided that the requirements of CBOE Rule 31.5(F) are met.

[11] See Amendment No. 1, supra note 4.

number of shares (rounded to the fourth decimal place) so that the stock weight in the Index represents its share of the market value of the stocks selected within the country. Stock weights will be capped such that the weight of the largest stock in a country may not be greater than 50% of that country's weight at rebalancing. Weights of the other stocks of the country will be adjusted accordingly. For example, if a stock represents 60% of the market value within a country, its weight within the country will be adjusted down to 50%. The weights of the remaining component securities from that country will be increased proportionally, in the aggregate 10%, by their pre-adjustment weights. Further, if the stock represents 30% of the market value in a country with an Asia 100 country weight of 28%, the stock's weight in the entire Asia 100 Index will be 8.4%, *i.e.*, 30% share within the country × 28% country weight = 8.4%. The weight of each selected stock will remain constant until the next stock rebalancing, except for adjustments due to circumstances described below.

Stocks in the Asia 100 Index may need to be replaced between rebalancings due to corporate, governmental or regulatory actions or when the stock no longer meets the Stock Selection Criteria. Eligible stocks will be ranked in a replacement list by market capitalization on the date of the rebalancing. In these cases, Exchange staff will replace the stock with a stock from the replacement list. If the highest capitalized replacement stock has low trading volume or would cause an uncovered country to exceed 15% of the Index, the Exchange staff would choose the next succeeding replacement stock. Also, the Exchange staff will, where the circumstances permit, endeavor to provide at least three business days notice prior to making such changes. To maintain continuity of the Index, the divisor of the Index will be adjusted to reflect certain events relating to the component stocks. These events include, but are not limited to, spin-offs, certain rights issuances, mergers and acquisitions.

C. Trading of the Index Warrants (Exercise and Settlement)

The proposed warrants will be direct obligations of their issuer subject to cash-settlement in U.S. dollars, and either exercisable throughout their life (*i.e.*, American style) or exercisable only on their expiration date (*i.e.*, European style). Upon exercise, or at the warrant expiration date (if not exercisable prior to such date), the holder of a warrant structured as a ''put'' would receive payment in U.S. dollars to the extent that the Index value has declined below a pre-stated cash settlement value. Conversely, holders of a warrant structured as a ''call'' would, upon exercise or at expiration, receive payment in U.S. dollars to the extent that the Index value has increased above the pre-stated cash settlement value. If ''out-of-the-money'' at the time of expiration, the warrants would expire worthless.

The procedures for determining the cash settlement value for the warrants have not yet been determined by the CBOE. Once those procedures have been determined by the CBOE, they will be fully set forth in the prospectus and in the Information Circular distributed by the Exchange to its membership prior to the commencement of trading the warrant.[12]

D. Calculation and Dissemination of the Value of the Index

The CBOE asserts that the methodology used to calculate the value of the Index is similar to the methodology used to calculate the value of other stock indices. The Index base value was established at 200 on November 17, 1997. The level of the Index reflects the total market value of all 100 component stocks relative to a particular base period. The daily calculation of the Asia 100 Index is computed by dividing the total market value of the 100 companies in the Index by the Index divisor. The divisor keeps the Index comparable over time and is adjusted periodically to maintain the Index. Similar to other stock index values based on Asian markets, the value of the Index will be calculated by CBOE and disseminated once per day prior to the opening in the U.S. via the Options Price Reporting Authority or the Consolidated Tape Association.[13]

In the event that a security does not trade on a given day, the previous day's last sale price is used for purposes of calculating the Index. Prices used to value the stocks will be based upon the closing prices for the stocks at the primary exchanges for the respective stocks. Primary and backup pricing sources, including Bloomberg, will be used to obtain the closing prices for the stocks.[14] Stocks in the Asia 100 Index will be valued in U.S. dollars using each country's cross-rate to the U.S. dollar. Bloomberg's Composite New York rates, or comparable rates, quoted at 7:00 a.m. Chicago time will be used to convert the stock prices from the respective countries to U.S. dollars. If there are several quotes at 7:00 a.m. for the currency, the first quoted rate in that minute will be used to calculate the Asia 100 Index. In the event that there is no Bloomberg exchange rate for a country's currency at 7:00 a.m., stocks will be valued at the first U.S. dollar cross-rate quoted prior to 7:00 a.m.

E. Warrant Listing Standards and Customer Safeguards

The CBOE proposes to list the warrants on the Asia 100 pursuant to its stock index warrant listing standards in CBOE Rule 31.5(E).[15] The CBOE proposes that the Index be deemed broad-based for purposes of determining applicable position limits and margin treatment. As discussed further below in the *Surveillance* section, the Asia 100 warrants will comply with all aspects of CBOE Rule 31.5(E) except paragraph (7) which states that foreign country securities or ADRs that are not subject to a CSSA and have less than 50% of their global trading volume in dollar value in the United States, cannot, in the aggregate, represent more than 20% of the weight of an index.

Sales practice rules applicable to the trading of Index warrants are provided for in Exchange Rule 30.50 and to the extent provided by Rule 30.52 they are also contained in Chapter IX of the Exchange's Rules. Rule 30.50 governs, among other things, communications with the public. Rule 30.52 subjects the transaction of customer business in stock index warrants to many of the requirements of Chapter IX of the Exchange's rules dealing with public customer business, including suitability. For example, no member organization may accept an order from a customer to purchase a stock index warrant unless that customer's account has been approved for options transactions. The listing and trading of warrants on the Asia 100 Index will be subject to these guidelines and rules.

The margin requirement for a short Index warrant will be 100% of the premium plus 15% of the underlying value, less out-of-the-money dollar amount, if any, to a minimum of 10% of the Index value. A long Index warrant position must be paid for in full. Straddles will be permitted for call and put Index warrants covering the same underlying value. The margin

[12] Phone conversation between Timothy Thompson, Senior Attorney, CBOE and Marianne H. Duffy, Special Counsel, Division of Market Regulation, Commission on January 22, 1998.

[13] None of the Asian markets represented in the Index are open for trading during U.S. market trading hours.

[14] CBOE represents that the data provided by Bloomberg comes directly from the stock exchanges of the various countries. See Amendment No. 1, supra note 4.

[15] *See* Amendment No. 2, supra note 4.

requirements are provided for under Exchange Rules 30.53 and 12.3.

The applicable position and exercise limits will be determined pursuant to Exchange Rule 30.35(a). Pursuant to Exchange Rules 4.13(a) and 30.35(e) each member will be required to file a report with the Department of Market Regulation of the Exchange identifying those customer accounts with an aggregate position in excess of 100,000 Index warrants.

F. Surveillance

The CBOE entered into a CSSA with the Stock Exchange of Hong Kong (''HKSE'') on October 1, 1992, pursuant to which the CBOE will be able to obtain market surveillance information from the HKSE. The CBOE also entered into a CSSA with the Taiwan Stock Exchange (''TSE'') in October 1997. Moreover, the CBOE entered into an information sharing agreement with the Kuala Lumpur (Malaysia) Stock Exchange which is currently being reviewed by the Commission to determine its effectiveness. In addition, the CBOE notes that no single uncovered country in the Index may represent more than 15% of the Index weight.

As of February 1, 1998, stocks from Hong Kong (32% Index weight) and Taiwan (22% Index weight) represent 54% of the Index weight. Therefore, a majority of the weight of the Index is currently composed of stocks traded on marketplaces with which the CBOE has a CSSA. No single uncovered country represents more than 14% (Malaysia) of the Index weight and no two uncovered countries represent more than 26% (Malaysia and Singapore) of the Index weight. As previously stated, the Asia 100 does not comply fully with CBOE Rule 31.5(E)(7), which states that foreign country securities or ADRs that are not subject to a CSSA and have less than 50% of their global trading volume in dollar value in the United States, cannot, in the aggregate, represent more than 20% of the weight of an index. The CBOE believes, however, that its existing CSSAs, along with the fact that the Index contains 100 component securities from eight countries, effectively eliminates the possibility of manipulation.

III. Commission Findings and Conclusions

The Commission finds that the proposed rule change by the Exchange is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and in particular, the requirements of Section 6(b)(5) of the Act.[16] Specifically, the Commission finds that the listing and trading of warrants based on the Index will serve to promote the public interest and help to remove impediments to a free and open securities market by providing investors with a means to hedge exposure to market risk associated with the Asian equity markets[17] and promote efficiency, competition, and capital formation.[18]

Nevertheless, the trading of warrants on the Index raises several concerns related to the design and maintenance of the Index, customer protection, surveillance and market impact. The Commission believes, however, for the reasons discussed below, that the CBOE has adequately addressed these concerns.

A. Design and Maintenance of the Index

The Commission finds that it is appropriate and consistent with the Act for the CBOE to apply its broad-based index warrant listing standards and trading rules to the Index. First, the Index is composed of 100 companies from several industry groups including: Airlines; financial institutions; high technology; real estate; telecommunications; and utilities. Second, no particular stock or group of stocks dominates the Index. Specifically, as of February 11, 1998, the highest weighted component security (HSBC Holdings, PLC of Hong Kong) comprised approximately 6.00% of the Index weight while the lowest weighted component security (Hang Lung Development, Co. of Hong Kong) comprised approximately 0.15% of the Index weight. The five highest weighted securities comprised approximately 21.54% of the Index weight. Accordingly, the Commission believes that it is appropriate for the CBOE to apply its broad-based index warrant listing standards and trading rules, including those for position limits and margin requirements, to the Index.

The Commission notes that with respect to the maintenance of the Index, the CBOE has implemented several safeguards in connection with the listing and trading of Index warrants that will serve to ensure that the Index component securities are relatively highly capitalized, diversified and actively traded. In this regard, CBOE will maintain the Index so that: (1) The minimum market value of the company during the past year must have been greater than $200 million; (2) the minimum dollar trading value of turnover of the stock must have been $100 million in the past year;[19] (3) the minimum monthly trading volume of the stock in any month during the past year must have been greater than $5 million; (4) the stock must have traded on at least 95% of the country's trading days; and (5) at least 20% of a company's stock must be available to foreign investors. In addition to the five maintenance criteria discussed above, the CBOE will notify the Commission prior to: adding a country to, or deleting a country from, the Index; or reducing the number of component securities below 95 securities.[20]

B. Customer Protection

The Commission notes that the rules and procedures of the Exchange adequately address the special concerns attendant to the trading of Index warrants. Specifically, the applicable suitability, account approval, disclosure and compliance requirements of the CBOE warrant listing standards satisfactorily address potential public concerns. Moreover, the CBOE plans to distribute a circular to its membership calling attention to specific risks associated with warrants on the Index. Pursuant to the Exchange's listing guidelines, only companies capable of meeting the CBOE's index warrant issuer standards will be eligible to issue Index warrants.

C. Surveillance

In evaluating new derivative instruments, the Commission, consistent with the protection of investors, considers the degree to which the derivative instrument is susceptible to manipulation. The ability to obtain information necessary to detect and deter market manipulation and other trading abuses is a critical factor in the Commission's evaluation. It is for this reason that the Commission requires that there be a CSSA in place between an exchange listing or trading a derivative product and the exchanges trading the stocks underlying the derivative contract that specifically enables officials to survey trading in the derivative product and its underlying

[16] 15 U.S.C. 78f(b)(5).

[17] 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 warrant 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.

[18] 15 U.S.C. 78c(f).

[19] See note 8, *supra*.

[20] See note 10, *supra*.

stocks.[21] Such agreements provide a necessary deterrent to manipulation because they facilitate the availability of information needed to fully investigate a potential manipulation if it were to occur. For foreign stock index derivative products, these agreements are especially important to facilitate the collection of necessary regulatory, surveillance and other information from foreign jurisdictions.

In order to address the above concerns, the Commission notes that the CBOE has entered into a CSSA with the HKSE on October 1, 1992, pursuant to which the CBOE will be able to obtain market surveillance information from the HKSE. The CBOE also entered into a CSSA with the TSE in October 1997. In addition, the CBOE entered into an information sharing agreement with the Kuala Lumpur (Malaysia) Stock Exchange on January 6, 1995 which is currently being reviewed by the Commission to determine its effectiveness.

Based upon calculations made on February 11, 1998, stocks from Hong Kong (32% Index weight) and Taiwan (22% Index weight) represent 54% of the Index weight. Therefore, a majority of the weight of the Index is currently composed of stocks traded on marketplaces with which the CBOE has a CSSA. No single uncovered country represents more than 14% (Malaysia) of the Index weight and no two uncovered countries represent more than 26% (Malaysia and Singapore) of the Index weight. The Asia 100 does not comply fully with CBOE Rule 31.5(E)(7), which states that foreign country securities or ADRs that are not subject to a CSSA and have less than 50% of their global trading volume in dollar value in the United States, cannot, in the aggregate, represent more than 20% of the weight of the an index.[22]

The Commission has considered the adequacy of survelliance sharing arrangements in the context of numerous types of derivative products, including derivative products based on stock indices composed of component securities from several countries. In such cases, the Commission traditionally has considered multiple factors in evaluating whether the subject instruments are readily susceptible to manipulation. In many cases, without CSSA's, the Commission would be unable to approve the proposed product. The Commission, however, recognizes that the construction of an index can mitigate against the need to require that CSSA's be concluded with all the markets whose securities underlie an index. Specifically, an index composed of a large number of relatively highly capitalized and liquid securities, traded across multiple markets, should be difficult to manipulate because there will be greater execution costs and timing difficulties associated with coordinating trades on multiple markets. Indeed, the Commission has approved or commented favorably upon deriative products based on the Eurotrack 200, the Eurotop 100, the International Market Index (''IMI''), and the Europe, Australia and Far East (''EAFE'') Index, even though all of the stocks comprising these indices were not covered by a CSSA.[23] In these cases, stocks from countries with a major index weighting were covered by CSSAs and no single uncovered country's securities accounted for more than a small percentage of the indices' weight.

The Commission believes that this is also the case with the Asia 100 even though the Asia 100 does not comply fully with CBOE Rule 31.5(e)(7). The Commission believes that the CBOE has established sufficient CSSAs, representing a majority of the Index weight, to assist in the policing of the Index warrants. In addition, the Commission believes that the unique design of the Index, including the required maintenance and notification criteria, justifies approval of the Index for warrant trading. Specifically, the large number of component securities and countries, relatively highly capitalized and actively traded component securities and the requirement that no single uncovered country represent more than 15% of the Index weight sufficiently reduces the likelihood that the Index could be manipulated. Nonetheless, the Commission encourages the CBOE to continue its efforts in securing CSSAs with additional countries in the Index.

D. Market Impact

The Commission believes that the listing and trading of Index warrants on the CBOE should not adversely impact the securities markets in the U.S. or Asia. First, the existing index warrant listing standards and customer safeguard rules of the CBOE will apply to warrants based on the Index. Second, the Commission notes that the Index is diversified and includes relatively highly capitalized securities that are actively traded in their home markets. Accordingly, the Commission does not believe that the introduction of Index warrants on the CBOE will have a significant effect on the underlying Asian securities markets.

The Commission finds good cause to approve Amendment Nos. 1 and 2 prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register**. Specifically, Amendment No. 1 provides, among other things: that the minimum market value of a component company during the past year must have been greater than $200 million; that no single country uncovered by a CSSA may represent more than 15% of the Index weight; and that the CBOE will notify the Commission prior to adding a country to, or deleting a country from, the Index; or reducing the number of component securities below 95 securities.[24] Amendment No. 2 provides, among other things, technical clarifications regarding the Index rebalancing replacement of component securities. The Commission notes that no comments were received when the original notice of the proposed rule change was published and that no new regulatory issues are presented in Amendment Nos. 1 and 2.

Accordingly, the Commission believes that it is consistent with Sections 6(b)(5) and 19(b)(2)[25] of the Act, to find good

[21] The Commission believes that the ability to obtain relevant surveillance information, including, among other things, the identity of the ultimate purchasers and sellers of securities, is an essential and necessary component of a CSSA. A CSSA should provide the parties thereto with the ability to obtain information necessary to detect and deter market manipulation and other trading abuses. Consequently, the Commission generally requires that a CSSA require that the parties to the agreement provide each other, upon request, information about market trading activity, clearing activity and customer identity. See Securities Exchange Act Release No. 31529 (November 27, 1992).

[22] As previously stated, as of February 11, 1998, stocks from countries with CSSAs represent 54% of the Index weight. Additionally, the CBOE has entered into an agreement with the Kuala Lumpur (Malaysia) Stock Exchange representing 14% of the Index weight which is currently being reviewed by the Commission to determine its effectiveness.

[23] See Securities Exchange Act Release No. 30462 (March 11, 1992) 57 FR 9290 (order approving the listing and trading of warrants on the Eurotrack 200 on the CBOE and the New York Stock Exchange, Inc. and the listing and trading of options on the Eurotrack 200 on the CBOE); Securities and Exchange Act Release No. 30463 (March 11, 1992) 57 FR 9284 (order approving the listing and trading of warrants and options on the Eurotop 100 on the American Stock Exchange, Inc. (''Amex'')); Securities Exchange Act Release No. 26653 (March 21, 1989), 54 FR 12705) (order approving the listing and trading of options on the IMI on the Amex); and letter from Jonathan G. Katz, Secretary, SEC to Dr. Paula Tosini, Director, Division of Economic Analysis, Commodity Futures Trading Commission, dated October 11, 1988 (letter not objecting to the designation of the Chicago Merchantile Exchange as a contract market to trade EAFE index futures).

[24] See note 10, *supra*.

[25] 15 U.S.C. 78s(b)(2).

cause exists to approve Amendments No. 1 on an accelerated basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment Nos. 1 and 2, 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, N.W., Washington, D.C. 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 Room, 450 Fifth Street, N.W., Washington, D.C. 20549. 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–97–64 and should be submitted by April 14, 1998.

For the foregoing reasons, the Commission finds that the CBOE's proposal to list and trade warrants based on the Asia Tiger 100 Index is consistent with the requirements of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR–CBOE–97–64), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[26]

Margaret H. McFarland,

Deputy Secretary.

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[26] 17 CFR 200.30–3(a)(12) (1994).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–39763; File No. SR–CBOE–98–04]

Self-Regulatory Organizations; Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Clarifying the Application of Exchange Rules 8.7 and 8.51 to the Activities of Market-Makers on the CBOE

March 16, 1998.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] notice is hereby given that on February 6, 1998, the Chicago Board Options Exchange, Incorporated (''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 CBOE. 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 Change

CBOE proposes to amend certain of its rules pertaining to the obligations of market-makers. 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, CBOE 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 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 clarify the application of Exchange Rules 8.7 and 8.51 to the activities of market-makers on CBOE by amending or adopting interpretations and policies under those Rules. Rule 8.7 requires, among other things, that market-makers on CBOE ''compete with other Market-Makers to improve markets in all series of options classes at the station where a Market-Maker is present.'' Rule 8.51 imposes firm quotation obligations on trading crowds. Ordinarily, in meeting these obligations, each market-maker makes his or her own independent decision concerning what market to quote at any given time, and does not attempt to discuss or agree with other market-makers concerning what the market ought to be. However, there are circumstances where, in order to make fair and orderly markets that are competitive with other markets and responsive to the legitimate needs of investors, some coordination among market-makers is necessary. These circumstances arise (1) in connection with the establishment of parameters used by the automated quotation updating system (which is generally the Exchange's Auto Quote system) to automatically generate options quotations in response to changes in the market for the underlying security or index; (2) in responding to requests for markets in size, such that the coordinated efforts of more than one market-maker are called for in order to be able to fill any resulting order to buy or sell options; and (3) whenever a trading crowd, in order to be competitive with other markets, determines collectively to honor its disseminated quotations in a size greater than the six (ordinarily 10 contracts) called for under the Exchange's firm quotation rule (Rule 8.51). As described below, the purpose of this filing is to describe the nature and extent of coordination among market-makers that is permitted under each of these circumstances.

Auto Quote Formulas

Automated quotation updating systems, which are relied upon by all trading crowds to provide immediately updated quotations in options series traded by the crowd, utilize option valuation formulas in order to generate options quotations based on changes in any one of a number of variables. Among other things, these formulas require assumed volatility factors to be established for each underlying interest. The quotations that are generated and displayed by these systems translate into obligations of the trading crowd to buy or sell options at the quoted prices. For this reason, all members of the trading crowd participate in the decisions concerning the components of the automated quotation updating system formula applicable to each class of options traded by the crowd. Proposed Interpretation and Policy 8.8.07 reflects this by providing expressly that the formula used in each

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