

listing and trading of ELNs.⁴ ELNs are intermediate term, nonconvertible, hybrid debt instruments, the value of which is linked to the performance of a highly capitalized, actively traded U.S. common stock or non-convertible preferred stock ("linked security"). In order to list an ELNs product, Section 107B currently requires the linked security to meet one of the following criteria:

Market Capitalization and Annual Trading Volume

\$3 billion and 2.5 million shares.
\$1.5 billion and 20 million shares.
\$500 million and 80 million shares.

Amex now proposes to amend Section 107(B) to provide for greater flexibility in the listing criteria for ELNs. The proposed rule change will lower the trading volume requirements criteria for underlying linked stocks meeting the capitalization requirements of \$1.5 billion and \$500 million. Under the revised criteria, a linked stock with market capitalization of \$1.5 billion would now need an annual trading volume of 10 million shares, as opposed to the current trading volume requirement of 20 million shares. Securities with a market capitalization in excess of \$500 million also would be eligible for ELNs listing if they have annual trading volume of 15 million shares, as opposed to the 80 million shares under the current rule.⁵ The proposal will also delete the current provision of the rule that allows the Exchange to list ELNs that do not meet the market capitalization and trading volume criteria if the Division of Market Regulation of the SEC concurs.

The Exchange believes these revisions strike an appropriate balance between the Exchange's responsiveness to innovations in the securities markets and its need to ensure the protection of investors and the maintenance of fair and orderly markets. Moreover, the Exchange believes that these changes will not have an adverse impact on the markets for the underlying linked security since the requirements will continue to ensure that the linked security has a large minimum market capitalization and a significant amount of trading volume over the preceding twelve months. The Exchange will continue to require that the issuer have

a minimum tangible net worth of \$150 million and that the total issue price of the ELNs combined with all of the issuer's other listed ELNs shall not be greater than 25% of the issuer's tangible net worth at the time of issuance.

II. 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, and, in particular, the requirements of Section 6(b)(5).⁶ In particular, the Commission believes the proposal is consistent with the Section 6(b)(5) requirement that the rules of an exchange be designed to promote just and equitable principles of trade and not to permit unfair discrimination between customers, issuers, brokers, and dealers.

The Commission finds that the proposal to reduce the trading volume requirement for eligible linked securities will expand the number of securities that can be linked on ELNs while maintaining the requirement that the linked security be an actively traded, highly capitalized common stock or ADR. While the proposal reduces the trading volume criteria for securities with market capitalizations in the \$1.5 billion and \$500 million tiers to 10 million and 15 million shares, respectively (from 20 and 80 million shares, respectively), the Commission nevertheless believes that, together, the applicable capitalization and new trading volume requirements will continue to help ensure that ELNs are only issued on highly liquid securities of broadly capitalized companies. Accordingly, the Commission believes that these requirements will continue to help reduce the likelihood of any adverse market impact on the securities underlying ELNs.

Finally, the Commission notes that the Exchange has deleted the provision that allows it to list ELNs on securities not meeting the market capitalization and trading volume criteria if the Division of Market Regulation of the SEC concurs. The revised criteria will expand the number of securities eligible for ELNs trading. The increased flexibility in the ELNs listing criteria should effectively reduce or eliminate the need for additional discretion in this area, in addition to providing issuers and the Exchange with specific and clear guidance on the applicable listing criteria for a security to be eligible to underlie an ELN.

It therefore is ordered, pursuant to Section 19(b)(2) of the Act,⁷ that the proposed rule change (SR-Amex-95-48) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority:⁸

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36992; File No. SR-CBOE-96-11]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to the Listing and Trading of Options on the CBOE PC Index

March 20, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on March 7, 1996, 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 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 provide for the listing and trading on the Exchange of options on the CBOE PC Index ("CBOE PC Index" or "Index"), a narrow-based, equal weighted index comprised of eight of the largest personal computer manufacturing companies.

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 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

⁴ See Securities Exchange Act Release Nos. 32345 (May 20, 1993) and 33328 (Dec. 13, 1993).

⁵ Under the rule, as amended by this proposal, ELNs could be listed where the linked security met any of the following criteria:

Market capitalization and Annual Trading Volume

\$3 billion and 2.5 million shares.
\$1.5 billion and 10 million shares.
\$500 million and 15 million shares.

⁶ 15 U.S.C. 78f(b)(5) (1982).

⁷ 15 U.S.C. 78s(b)(2) (1988).

⁸ 17 CFR § 200.30-3(a)(12) (1994).

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

1. Purpose

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 CBOE PC Index, an equal-weighted index consisting of stocks of eight of the largest personal computer manufacturing companies. CBOE represents that each of these stocks are actively traded and believes that options on the Index will provide investors with a low-cost means to participate in the performance of the domestic PC industry or a means to hedge the risk of investments in that industry. The Exchange believes that the small number of Index components should facilitate replication of the Index for hedging purposes.

Index Design

As noted above, the CBOE PC Index consists of eight components, all of which trade on the New York Stock Exchange ("NYSE") or Nasdaq.¹ In addition, the Exchange represents that all eight underlying component securities currently meet the Exchange's listing criteria for equity options contained in Exchange Rule 5.3 and are the subject of options trading on U.S. options exchanges.

As of February 6, 1996, the capitalization of the components ranged from a low of \$363 million (AST Research) to a high of \$65.26 billion (IBM). The total capitalization as of that date was \$135.5 billion; the mean capitalization was \$16.9 billion; and the median capitalization was \$3.34 billion. Because the Index is equal-weighted, each component accounts for 12.5% of the weight of the Index.

Calculation

The Index will be calculated by CBOE or its designee on a real-time basis using last-sale prices and will be disseminated every 15 seconds. The updated Index values will be displayed by the Consolidated Tap Association and over the facilities of the Options Price Reporting Authority ("OPRA"). If a component is not currently being traded on its primary market, the most recent

price at which the share traded on such market will be used in the Index calculation. The value of the Index at the close on February 1, 1996 was 127.65.

The Index is equal-weighted and reflects changes in the prices of the component stocks relative to the Index base date, January 3, 1995 when the Index was set to 100.000. Specifically, each of the component securities is initially represented in equal-dollar amounts, with the level of the Index equal to the combined market value of the assigned number of shares for each of the Index components divided by the current Index divisor. The Index divisor is adjusted to maintain continuity in the Index at the time of certain types of changes. Changes which may result in divisor changes include, but are not limited to, quarterly re-balancing, special dividends, spin-offs, certain rights issuances, and mergers and acquisitions.

Maintenance

The Index will be maintained by CBOE and will be re-balanced after the close of business on Expiration Fridays on the March Quarterly Cycle. The Index will be reviewed regularly and CBOE may change the composition of the Index at any time to reflect changes affecting the components of the Index or the PC markets generally. If it becomes necessary to replace a component, every effort will be made to add a component that preserves the character of the Index. If no replacement is available, or if CBOE determines to decrease the number of component stocks, it will submit a proposed rule change pursuant to Section 19(b) of the Act prior to opening any new series of Index options for trading. Absent prior Commission approval, CBOE will not increase to more than ten the number of component stocks in the Index. Finally, if at any time any of the components are not options eligible, the Exchange will submit a rule change pursuant to Section 19(b) of the Act prior to opening any new series of Index options for trading.

Index Option Trading

The Exchange proposes to base trading in options on the CBOE PC Index on the full value of that Index. The Exchange may list full-value long-term index option series ("LEAPS[®]"), as provided in Rule 24.9. The Exchange also may provide for the listing of reduced-value LEAPS, for which the underlying value would be computed at one-tenth of the value of the Index. The current and closing index value of any such reduced-value LEAP will, after

such initial computation, be rounded to the nearest one-hundredth.

Exercise and Settlement

CBOE PC Index options will have European-style exercise and will be "A.M.-settled index options" within the meaning of the Rules in Chapter XXIV, including Rule 24.9, which is being amended to refer specifically to CBOE PC Index options. The proposed options will expire on the Saturday following the third Friday of the expiration month and the last day for trading in an expiring series will be the second business day (ordinarily a Thursday) preceding the expiration date.

Exchange Rules Applicable

Except as modified herein, the Rules in Chapter XXIV will be applicable to CBOE PC Index options. Index option contracts based on the CBOE PC Index will be subject to a position limit of 9,000 contracts on the same side of the market.² Ten reduced-value options will equal one full-value contract for such purposes.

CBOE represents that it has the necessary systems capacity to support new series that would result from the introduction of options on the Index and has also been informed that OPRA has the capacity to support such new series.³

Surveillance

The surveillance procedures currently used to monitor the trading of options on other Exchange-listed indexes will be used to monitor the trading of options on the CBOE PC Index. The Exchange has access to trading activity in the underlying securities, all of which trade on either the NYSE or Nasdaq, via the Intermarket Surveillance Group Agreement.

2. Statutory Basis

CBOE believes 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 CBOE PC Index pursuant to rules designed to prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade, and thereby will provide investors with the ability to invest in options based on an additional index.

² CBOE recently increased its position limit tiers applicable to narrow-based index options from 5,000, 7,500, and 10,500 contracts on the same side of the market to 6,000, 9,000, and 12,000 contracts, respectively.

³ See Letter from Joe Corrigan, OPRA, to Eileen Smith, CBOE, dated February 21, 1996.

¹ The components of the Index are: Apple Computer, AST Research, Compaq Computer, Dell Computer, Gateway 2000, Hewlett Packard, International Business Machines, and Micron Electronics.

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

The Exchange believes the proposed rule change will impose no burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

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

Within 35 days of the 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 the 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 make written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., 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 at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, DC 20549. 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-96-11 and should be submitted by April 17, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴

Margaret H. McFarland,
Deputy Secretary.
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[Release No. 34-36995; International Release No. 954: File No. SR-CBOE 95-71]

Self-Regulatory Organizations; Chicago Board Options Exchange, Inc.; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change and Amendment No. 1 Thereto Relating to Listing Criteria for Equity Linked Term Notes ("ELNs")

March 20, 1996.

Pursuant to Section 19(b)(1), of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on December 20, 1995, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I and II below, which Items have been prepared by the CBOE. On January 18, 1996, CBOE filed Amendment No. 1 ("Amendment No. 1") to the proposed rule change to clarify issues relating to the issuance of ELNs on non-U.S. companies that trade in the U.S. market as sponsored American Depositary Receipts, ordinary shares, or otherwise.¹ This Order approves the proposed rule change, as amended, on an accelerated basis and also solicits comments on the proposed rule change, as amended, from interested persons.

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

The Exchange proposes to amend its rules relating to the listing criteria for equity linked term notes. The text of the proposed rule change is available at the Office of the Secretary of the 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 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. 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

ELNs are intermediate-term (i.e., two to seven years), non-convertible hybrid securities, the value of which is based, at least in part, on the value of another issuer's common stock, non-convertible preferred stock, or certain sponsored American Depositary Receipts ("ADRs"). ELNs may pay periodic interest or may be issued as zero-coupon instruments with no payments to holders prior to maturity. ELNs also may be subject to a "cap" on the maximum principal amount to be repaid to holders upon maturity, or, conversely, they may feature a "floor" on the minimum principal amount paid to holders upon maturity. A specific issue of ELNs, for example, may provide holders with a fixed semi-annual interest payment, while capping the maximum amount to be repaid upon maturity at 135% of the issuance price, with no minimum floor guarantee on the principal to be repaid at maturity. Another issue of ELNs might offer lower semi-annual payments based upon a floating interest rate with a minimum floor for the repayment of principal of 75% of the issuance price. The flexibility available to an issuer of ELNs permits the creation of securities which offer issuers and investors the opportunity to more precisely focus on a specific investment strategy.

The CBOE's proposal would modify the listing standards applicable to the underlying linked security. Paragraph (e) of Rule 31.5.I specifies that a common stock or a non-convertible preferred stock may be considered for listing on the Exchange if the underlying stock meets one of three alternative criteria for market capitalization and trading volume. Lower levels of market capitalization require a higher trading volume for the Exchange to consider listing an ELN on that security. The Exchange believes that two of the three trading volume levels could be reduced without compromising investor protection.

Specifically, the Exchange is proposing that the Exchange be permitted to list an ELN on a security with a market capitalization of at least \$1.5 billion if that security has trading volume in U.S. markets of at least 10 million shares during the 12 month period preceding the listing. Currently, paragraph (e) requires trading volume of 20 million shares for such securities. In

¹ Letter from Timothy Thompson, CBOE, to Michael Walinskas, SEC, dated January 17, 1996.

⁴ 17 CFR 200.30-3(a)(12) (1994).