

[Release No. 34-37693; File No. SR-CBOE-96-43]

**Self-Regulatory Organizations;
Chicago Board Options Exchange,
Inc.; Order Approving Proposed Rule
Change, and Notice of Filing and Order
Granting Accelerated Approval of
Amendments No. 1, No. 2 and No. 3
Thereof Relating to the Listing and
Trading of Options on the Goldman
Sachs Technology Composite Index**

September 17, 1996.

On July 2, 1996, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² a proposed rule change to provide for the listing and trading on the Exchange of options on the Goldman Sachs Technology Composite Index ("GSTI Composite Index" or "Index"), a cash-settled, broad-based index designed to measure the performance of high capitalization technology stocks. Notice of the proposed rule change was published for comment and appeared in the Federal Register on August 9, 1996.³ No comments were received on the proposal. On August 13, 1996, the Exchange filed Amendment No. 1 to the proposed rule change.⁴ On September 10, 1996, CBOE submitted Amendment No. 2 to the proposed rule change.⁵ On September 16, 1996, CBOE submitted Amendment No. 3 to the proposed rule change⁶ (together with Amendments No. 1 and No. 2, the "Amendments"). This order approves the proposal, as amended, and solicits comments on Amendment No. 1, Amendment No. 2, and Amendment No. 3.

I. Description of the Proposal

A. Composition of the Index

The GSTI Composite Index has been designed to measure the performance of the universe of high capitalization

technology stocks.⁷ The GSTI Composite Index is a capitalization-weighted index with each stock affecting the Index in proportion to its market capitalization. All securities that meet the following criteria (the "GSTI Index Rules") will automatically be included in the Index, either at the time of the semiannual rebalancing or when the "fast-add" criteria, as defined below, are met.⁸

First, the company's stock must trade on the New York Stock Exchange, the American Stock Exchange or through the facilities of the Nasdaq, and be "reported securities" under Rule 11Aa3-1. Only outstanding common shares are eligible for inclusion. Additionally, only foreign companies whose primary market is in the United States will be eligible for the Index.⁹ American Depositary Receipts are not eligible. Second, the total market capitalization of the company's stock must be equal to or greater than the capitalization "cutoff" value. The initial base period "cutoff" value will be \$600 million, but this value will be adjusted on each semiannual rebalancing date (as described below) to reflect the price performance of the Index since the base period and rounded up to the nearest \$50 million. Third, company stocks with a public float below 20% of shares issued and outstanding are not eligible for inclusion in the Index.¹⁰ Fourth, the company stock must have annualized share turnover of 30% or more, based on its average daily share volume for the six calendar months prior to inclusion in the Index. Fifth, the components must be from a delineated group of Standard Industrial Classification codes

⁷ A list of the securities comprising the GSTI Composite Index, as well as listed shares outstanding and prices as of April 30, 1996, was submitted by the Exchange as Exhibit B, and is available at the Office of the Secretary, CBOE and at the Commission.

⁸ Amendment No. 1. All the securities to be added to or deleted from the Index, whether at the semi-annual rebalancing or by "fast-add" or "fast-delete," will be identified and selected solely by the CBOE staff. The GSTI Committee, which is responsible for maintaining the GSTI Sub-Indexes (as discussed in SR-CBOE-96-44), is not involved in any decisions on adding or deleting securities from the Composite Index. *Id.*

⁹ Amendment No. 1.

¹⁰ The public float is determined by dividing the number of shares which are owned by persons other than those required to report their stock holdings under Section 16(a) of the Act by the total number of shares outstanding. With respect to options on underlying individual components, CBOE Rule 5.3, Interpretations and Policies .01(a)(1) requires a minimum of 7,000,000 shares of the underlying security which are owned by persons other than those required to report their stock holdings under Section 16(a) of the Act. Telephone conversation with Eileen Smith, CBOE and Janice Mitnick, Attorney, Office of Market Supervision, Division of Market Regulation, SEC, on July 30, 1996.

or Russell Industry codes.¹¹ Sixth, at least 75% of the weight of the Index must be options eligible pursuant to CBOE Rule 5.3.¹²

As of April 30, 1996, the Index was comprised of 177 stocks ranging in capitalization from \$604 million to \$67.3 billion. The largest stock accounted for 8.5% of the total weighting of the Index, while the smallest accounted for 0.08%. The median capitalization of the firms in the Index was \$1.5 billion.

B. Calculation

The methodology used to calculate the value of the Index is similar to the methodology used to calculate the value of other well-known broad-based indices. The level of the Index reflects the total market value of all the component stocks relative to a particular base period. The GSTI Composite Index base date is April 30, 1996, when the Index value was set to 100. The daily calculation of the GSTI Composite Index is computed by dividing the total market value of the components in the Index by the Index Divisor. The divisor is adjusted as needed to ensure continuity in the Index whenever there are additions and deletions from the Index, share changes, or adjustments to a component's price to reflect offerings, spinoffs, or extraordinary cash dividends. The values of the Index will be calculated by CBOE on a real-time basis, and disseminated at 15-second intervals during regular CBOE trading hours to market information vendors via the Options Price Reporting Authority ("OPRA").¹³

C. Maintenance

The GSTI Composite Index will be maintained by the Exchange. Index maintenance includes monitoring Index criteria and completing the adjustments for company additions and deletions, share changes, stock splits, stock dividends, and stock price adjustments due to such events as company restructurings or spinoffs, as well as the semiannual rebalancing. Any changes CBOE makes to the Index must be in

¹¹ Amendment No. 1. Included in the delineated list are 14 categories under the SIC Code and 6 categories under the Russell Code.

¹² Amendment No. 3. As of April 30, 1996, 100% of the Index was options eligible. See note 25, *infra*, which discusses CBOE options eligibility standards.

¹³ Telephone conversation between Eileen Smith, CBOE and Sharon Lawson, Senior Special Counsel, Office of Market Supervision, Division of Market Regulation, SEC, on September 17, 1996. The original filing proposed that the Sub-Index values be calculated by CBOE or a designee of Goldman Sachs.

¹ 15 U.S.C. § 78s(b)(1).

² 17 CFR § 240.19b-4.

³ See Securities Exchange Act Release No. 37519 (August 2, 1996), 61 FR 41671.

⁴ See letter from Eileen Smith, Director, Product Development, CBOE to Stephen Youhn, Special Counsel, Office of Market Supervision, Division of Market Regulation, SEC, dated August 13, 1996. Amendment No. 1 primarily addresses issues related to Index maintenance criteria.

⁵ See letter from Eileen Smith, CBOE to Stephen Youhn, SEC, dated September 10, 1996. Amendment No. 2 institutes a minimum market capitalization requirement for Index components.

⁶ See letter from Eileen Smith, CBOE to Stephen Youhn, SEC, dated September 16, 1996. Amendment No. 3 clarifies Amendments No. 1 and No. 2.

compliance with the inclusion and maintenance criteria.

The Index will be rebalanced by CBOE for additions and deletions on a semiannual basis. Stocks will be added or deleted from the Index at the semiannual rebalancing in accordance with CBOE's application of the GSTI Index Rules,¹⁴ as well as compliance with the market capitalization cut-off value, component options eligibility percentages, trading volume requirements and weighting limitations noted below. In particular, Index constituents with capitalization below 50% of the "cutoff" value on a semiannual rebalancing date shall be removed after the close on the effective date of the rebalancing. Further, at the semiannual rebalancing, CBOE will consult with the Commission staff if any component's market capitalization drops below \$75 million at the time of the semiannual rebalancing and that component is not options eligible,¹⁵ less than 75% of the capitalization of the Index is represented by stocks eligible for options trading,¹⁶ and/or 10% or more of the weight of the Index is composed of stocks with average daily volume for the previous six-month period of less than 20,000 shares.¹⁷ If any of these situations occur, the CBOE will discuss with Commission staff what action should be taken, including whether the Index should be reclassified as narrow-based, opening transactions should be prohibited and/or new Index series should not continue to be listed. Additionally, CBOE will notify Commission staff if the largest component of the Index is greater than 15% of the weight of the Index, or the top five components are greater than 50% of the weight of the Index.¹⁸

At the rebalancing, Index share changes will be made to reflect the outstanding shares and closing prices of all Index constituents on the "rebalancing" date. The changes will be implemented after the close on the "effective" date. The effective dates shall be the third Friday of January and July. The rebalancing date shall be seven (7) business days inclusive prior to the effective date. Notice of the new component list will be disseminated by the Exchange to the public at least five

trading days before the effective date, unless unforeseen circumstances require a shorter period.

Stocks may be added or deleted from the Index at a time other than at the rebalancing according to the "Fast Add and Delete" rule. All Index constituent changes made in accordance with this rule will be announced by the Exchange at least three to five trading days prior to the effective date of the Fast Add or Delete, unless unforeseen circumstances require a shorter period.

Any technology-related company whose shares start trading between semiannual rebalancings is eligible to be Fast Added to the Index if all the inclusion criteria described above are met, excluding the requirement for minimum share turnover ratio.¹⁹ Further, the stock must rank in the top quartile of market capitalization of the GSTI Composite Index based on the previous month-end closing prices.

If two companies in the Index merge, or if an Index constituent merges with a company not currently in the Index, the merged company shall remain in the Index if it meets all the Index inclusion criteria. If the company to be merged into another company ("target company") is currently in the Index, it will be Fast Deleted after the close on the date the merger is completed.

If a GSTI Composite Index constituent is acquired by a non-Index company, the acquiring company may be added to the Index if it meets the inclusion criteria; otherwise, the target company will be Fast Deleted. Any such additions or deletions will be effective after the close on the date the acquisition is completed.

If a company in the Index spins off another company, the parent and the spinoff will remain in the Index provided that each meets the Index inclusion criteria. If either the parent or the spinoff fails to meet the inclusion criteria, it will be removed from the Index.

In the event that a company represented in the Index files for bankruptcy, its stock will be removed from the Index effective after the close on the date of the filing. In the event that trading in an Index constituent is suspended for thirty (30) trading days, CBOE will remove the company from the Index unless an announcement has been made that the stock will commence trading within the next ten days.²⁰ Any such removal will be preannounced and, for purposes of

minimizing impact to be Index, the stock to be removed will be removed at the value at which it last traded.

Except for stocks which meet the criteria for Fast Add or Delete (as described above), stocks can only be added or deleted by CBOE from the Index at the time of the semiannual rebalancing.

D. Index Option Trading

In addition to regular Index options, the Exchange may provide for the listing of long-term index option 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.

Strike prices will be set to bracket the Index in a minimum of 2½ point increments for strikes below 200 and in 5 point increments above 200. The minimum tick size for series trading below \$3 will be 1/16th and for series trading above \$3 the minimum tick will be 1/18th. The trading hours for options on the Index will be from 8:30 a.m. to 3:10 p.m. Chicago time.

E. 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 3:10 p.m. (Chicago time) on the business day preceding the last day of trading in the component securities of the Index (ordinarily the Thursday before expiration Saturday, unless there is an intervening holiday). The exercise settlement value of the Index at option expiration will be calculated based on the opening prices of the component securities on the business day prior to expiration. 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.²¹ When the last trading day is moved because of Exchange holidays (such as when CBOE is closed on the

¹⁴ The GSTI Index is based on pre-determined criteria (the GSTI Index Rules) which have been publicly disseminated. See Section I(A), *supra*.

¹⁵ Amendment No. 3.

¹⁶ Amendment No. 3.

¹⁷ Amendment No. 3.

¹⁸ Amendment No. 1. After notification of Commission staff, CBOE will monitor the Index for the following three month period. At the end of that time period, CBOE, in conjunction with Commission staff, will determine if the Index should be reclassified as narrow-based.

¹⁹ As noted above, CBOE will ensure 75% of the Index is options eligible at each semiannual rebalancing. These standards contain minimum trade volume requirements. See note 25, *infra*.

²⁰ Amendment No. 1.

²¹ The Commission notes, however, that pursuant to Article XVII, Section 4 of OCC's by-laws, OCC is empowered to fix an exercise settlement amount in the event that OCC determines that the current index value is unreported or otherwise unavailable. Further, OCC has authority to fix an exercise settlement amount whenever the primary market for the securities representing a substantial part of the value of an underlying index is not open for trading at the time when the current index value (*i.e.*, the value used for exercise settlement purposes) ordinarily would be determined. See Securities Exchange Act Release No. 37315 (June 17, 1996, 61 FR 42671 (August 16, 1996) (order approving SR-OCC-95-19).

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.

F. Surveillance

The Exchange will use the same surveillance procedures currently utilized for each of the Exchange's other index options of monitor trading in Index options and Index LEAPS on the GSTI Composite Index.

G. Position Limits

The Exchange proposes to establish position limits for options on the Index at 100,000 contracts on either side of the market, with no more than 60,000 of such contracts permitted to be in the series in the nearest expiration month. These limits are roughly equivalent, in dollar terms, to the limits applicable to options on other similar indices.

H. Exchange Rules Applicable and Systems Capacity.

As modified herein, the Rules in Chapter XXIV will be applicable to the trading of GSTI Composite Index options.

CBOE has stated that it has the necessary systems capacity to support new series that would result from the introduction of GSTI Composite Index options. CBOE has also been informed that the OPRA has the capacity to support new series.²²

II. Discussion

The Commission finds that the proposed rule change is consistent with the requirement 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).²³ The Commission finds that the trading of options on the Index will permit investors to participate in the price movement of the securities on which the Index is based. The Commission also believes that the trading of options on the Index is allow investors holding positions in some of all of the securities underlying the Index to hedge the risks associated with their portfolios. Accordingly, the Commission believes GSTI Composite Index options will provide investors with an important trading and hedging mechanism that should reflect accurately the overall movement of the

securities contained in the Index. By broadening the hedging and investment opportunities of investors, the Commission believes that the trading of options on the GSTI Composite Index will serve to protect investors, promote the public interest, and contribute to the maintenance of fair and orderly markets.²⁴

The trading of Goldman Sachs Technology Composite Index options, however, raised several issues, including issues related to index design, 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 that it is appropriate and consistent with the Act to classify the Index as broad-based, and therefore to permit Exchange rules applicable to the trading of broad-based index options to apply to the Index options. Specifically, the Commission believes the Index is broad-based because it reflects a substantial segment of the U.S. equities market, in general, and high capitalization technology securities, in particular. First, the high technology sector is a substantial segment of the U.S. equities market, the GSTI Index Rules ensure that the Index continues to reflect that segment. Second, the Index includes multiple industries within the high technology segment of the securities market, such as computer and office equipment, industry machinery, radio and television broadcasting and communications equipment, and telephone and telegraph apparatus, and does not rely solely on computer-related companies. Third, the Index consists of 177 actively traded securities (all options eligible as of April 30, 1996²⁵),

²⁴ Pursuant to section 6(b)(95) of the Act, the Commission must predicate approval of any new option or warrant proposal upon a finding that the introduction of such new derivative instrument is in the public interest. Such a finding would be difficult for a derivative instrument 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 options on the GSTI Index will provide investors with a hedging vehicle that should reflect the overall movement of the universe of highly capitalized technology stocks primarily traded on U.S. markets.

²⁵ The standards for options eligibility, 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 7,000,000; (2) there must be a minimum of 2,000 stockholders; (3) trading volume must have been at least 2.4 million

all of which trade on the New York Stock Exchange, the American Stock Exchange or through the facilities of the Nasdaq. Fourth, the market capitalization of the stocks comprising the Index is very large. Specifically, the total capitalization of the Index as of April 30, 1996 was approximately \$791.7 billion. Market capitalization of the individual stocks ranges from \$604 million to \$67.3 billion, with an average capitalization of \$4.47 billion. Fifth, no stock or group of stocks dominates the weight of the Index. Specifically, no single stock accounted for more than 8.5% of the total weighting of the Index, and the five highest weighted securities accounted for only 35% of the Index value.²⁶ Accordingly, the Commission believes it is appropriate to classify the Index as broad-based.

The Commission also believes that the general broad diversification, capitalization, and relatively liquid markets of the Index's component stocks significantly minimize the potential for manipulation of the Index. First, as discussed above, the Index represents a broad cross-section of domestically traded high capitalization technology stocks, with no single industry group or stock dominating the Index. Second, the majority of the stocks that comprise the Index are actively traded.²⁷ Third, the Commission believes that the Index selection and maintenance criteria will serve to ensure that the Index will not be dominated by low priced stocks with small capitalizations, floats and trading volumes.²⁸ Fourth, the CBOE has represented that it will monitor the Index semiannually and will consult with staff of the Commission when: (A)

over the preceding twelve months; and (4) the market price must have been at least \$7.50 for a majority of the business days during the preceding three calendar months. See CBOE Rule 5.3, Interpretation .01.

²⁶ Amendment No. 1. If the largest component of the Index is greater than 15% of the weight of the Index, or the top five components are greater than 50% of the weight of the Index, CBOE will notify Commission staff. After notification of Commission staff, CBOE will monitor the Index for the following three month period. At the end of that time period, CBOE, in conjunction with Commission staff, will determine if the Index should be reclassified as narrow-based. This standard regarding the weight of Index components should ensure that if the Index becomes dominated by one or a few securities, the Commission and CBOE will re-review the Index's broad-based status.

²⁷ As stated above, in order to qualify for inclusion in the Index, a company must have annualized share turnover of 30% or more based on its average daily share volume for the six calendar months prior to inclusion into the Index.

²⁸ In this regard, the Commission notes that the GSTI Composite Index is comprised of the universe of technology stocks that meet the GSTI Index Rules criteria. There are no subjective criteria in determining the components of the Index. See Amendment No. 1.

²² See memo from Joe Corrigan, Executive Director, OPRA, to Eileen Smith, Director of Product Research, CBOE, dated June 26, 1996 (confirming that the traffic generated is within the OPRA's capacity).

²³ 15 U.S.C. § 78f(b)(5).

less than 75% of the weight of the Index is options eligible;²⁹ (B) 10% or more of the weight of the Index is composed of stocks with average daily volume of less than 20,000 shares for the previous six month period;³⁰ (C) the market capitalization of any component falls below \$75 million at a time the component is not options eligible;³¹ or (D) the largest component of the Index is greater than 15% of the weight of the Index, or the top five components are greater than 50% of the weight of the Index.³² In the event the Index fails to satisfy any of the criteria in A, B and C above, CBOE will consult with the Commission to determine the appropriate regulatory response, including but not limited to the reclassification of the Index as narrow-based, prohibiting opening transactions and/or discontinuing the listing of new series of Index options.³³ As noted above, as to component weight, CBOE will monitor the Index for a three month period and, in conjunction with Commission staff, will determine whether the Index should be reclassified as narrow-based.³⁴

Fifth, the Exchange has proposed reasonable position and exercise limits for the Index options that will serve to minimize potential manipulation and other market impact concerns. The position limits, at 100,000 contracts on either side of the market, with no more than 60,000 of such contracts permitted to be in the series in the nearest expiration month, are roughly equivalent in dollar terms to the limits applicable to options on other similar indices. Accordingly, the Commission believes these factors minimize the potential for manipulation because it is unlikely that attempted manipulations of the prices of the Index components would affect significantly the Index's value. Moreover, the surveillance procedures discussed below should detect as well as deter potential manipulation and other trading abuses.

B. Customer Protection

The Commission believes that a regulatory system designed to protect public customers must be in place before the trading of sophisticated financial instruments, such as Index options, can commence on a national securities exchange. The Commission notes that the trading of standardized exchange-traded options occurs in an

environment that is designed to ensure, among other things, that: (1) the special risks of options are disclosed to public customers; (2) only investors capable of evaluating and bearing the risk of options trading are engaged in such trading; and (3) special compliance procedures are applicable to options accounts. Accordingly, because the Index options will be subject to the same regulatory regime as the other standardized options traded on the CBOE, the commission believes that adequate safeguards are in place to ensure the protection of investors in Index options.

C. Surveillance

The Commission generally believes that a surveillance sharing agreement between an exchange proposing to list a stock index derivative product and the exchange(s) trading the stocks underlying the derivative product is an important measure for surveillance of the derivative and underlying securities markets. Such agreements ensure the availability of information necessary to detect and deter potential manipulations and other trading abuses, thereby making the stock index product less readily susceptible to manipulation.³⁵ In this regard, the New York Stock Exchange, Inc., American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc., on whose markets the component securities of the Index trade, are all members of the Intermarket Surveillance Group ("ISG").³⁶

Options on the individual component securities also trade on markets which are ISB members. In addition, the CBOE will apply the same surveillance procedures as those used for existing broad based index, options trading on the CBOE.

D. Market Impact

The Commission believes that the listing and trading of GSTI Composite Index options on the CBOE will not adversely affect the underlying

securities markets.³⁷ First, as described above, the Index is broad-based and comprised of 177 stocks. No one stock or industry group dominates the Index and the maintenance standards will help to ensure this continues even if some of the Index components change.³⁸ Second, as noted above, the stocks contained in the Index have large capitalizations and are actively traded. Should 10% or more of the weight of the Index be composed of stocks with an average daily volume of less than 20,000 for the previous six months, CBOE will consult with Commission staff.³⁹

Third, as of April 30, 1996, all stocks comprising the Index were options eligible⁴⁰ and the maintenance standards ensure that, at least, 75% of the weight of the Index will continue to be eligible for options trading.⁴¹ Fourth, existing CBOE stock index options rules and surveillance procedures will apply to Index options. Fifth, the position limits of 100,000 contracts on either side of the market, with no more than 60,000 of such contracts in a series in the nearest month expiration month, will serve to minimize potential manipulation and market impact concerns. Sixth, the risk to investors of contra-party non-performance will be minimized because the Index options will be issued and guaranteed by the Options Clearing Corporation just like any other standardized option traded in the United States.

Finally, the Commission believes that settling expiring GSTI Composite Index options (including full-value and reduced-value Index LEAPS) based on the opening prices of component securities is reasonable and consistent with the Act. As noted in other contexts, valuing expiring index options for exercise settlement purposes based on opening prices rather than closing prices may help reduce adverse effects on the securities underlying options on the Index.⁴²

³⁷ The CBOE has stated that it has the necessary systems capacity to support new series that would result from the introduction of the GSTI Index options. As stated above, OPRA has represented that additional traffic generated by options and LEAPS on the Index is within OPRA's capacity. See note 22, *supra*.

³⁸ See note 18, *supra*, and accompanying text.

³⁹ Amendment No. 3. CBOE's consultation with Commission staff will address whether the Index should be reclassified as narrow-based, whether opening transactions should be prohibited and whether listing of new series should be discontinued if the Index does not meet the market value criteria. *Id.*

⁴⁰ Telephone conversation with Eileen Smith, CBOE and Janice Mitnick, SEC, on July 30, 1996.

⁴¹ See notes 16-18, *supra*, and accompanying text.

⁴² Securities Exchange Act Release No. 30944 (July 28, 1992), 57 FR 33376.

²⁹ Amendment No. 3.

³⁰ Amendment No. 3.

³¹ Amendment No. 3.

³² Amendment No. 1.

³³ Amendment No. 3.

³⁴ Amendment No. 1.

³⁵ See Securities Exchange Act Release No. 31243 (October 5, 1992), 57 FR 45849.

³⁶ The ISG was formed on July 14, 1983 to, among other things, coordinate more effectively surveillance and investigative information sharing arrangements in the stock and options markets. See Intermarket Surveillance Group Agreement, dated July 14, 1983, amended January 29, 1990. The members of the ISG are the following: American Stock Exchange; Boston Stock Exchange, Inc.; CBOE; Chicago Stock Exchange, Inc.; National Association of Securities Dealers, Inc.; New York Stock Exchange, Inc.; Pacific Stock Exchange Inc.; and Philadelphia Stock Exchange, Inc. The major stock index futures exchanges (including the Chicago Mercantile Exchange and the Chicago Board of Trade) joined the ISG as affiliate members in 1990.

The Commission finds good cause for approving the Amendments prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. Specifically, the Amendments clarify issues related to foreign securities, public float and suspension of trading of component securities. In addition, the Amendments establish maintenance criteria and provide that the CBOE will monitor the Index, and will notify Commission staff in the event that certain Index component levels fall below these designated thresholds. The Commission believes that these monitoring provisions ensure that the Index continues to be comprised of highly capitalized, actively traded securities. In addition, the maintenance criteria will ensure that the Index does not become dominated by one or a few securities. Accordingly, the Commission believes it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to find that good cause exists to approve the Amendments to the proposal on an accelerated basis.

III. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the Amendments. Persons making 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 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 CBOE. All submissions should refer to File No. SR-CBOE-96-43 and should be submitted by October 16, 1996.

IV. Conclusion

For the reasons discussed above, the Commission finds that the amended proposal is consistent with the Act, and, in particular, Section 6 of the Act.

It therefore is ordered, pursuant to Section 19(b)(2) of the Act,⁴³ that the

proposed rule change (SR-CBOE-96-43), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴⁴

[FR Doc. 96-24494 Filed 9-24-96; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-37695; File No. SR-PSE-96-19]

Self-Regulatory Organizations; Order Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 2 Thereto by the Pacific Stock Exchange, Inc., Relating to Firm Quotes, Automatic Executions and Orders That May Be Placed in the Options Public Limit Order Book

September 17, 1996.

On June 14, 1996, the Pacific Exchange, Inc. ("PSE" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² a proposed rule change to modify its rules on firm quotes,³ automatic executions and orders that may be placed in the Options Public Limit Order Book ("Book") in order to clarify the scope of these rules. The Exchange also proposed to modify its Minor Rule Plan and Recommended Fine Schedule relating to violations of these rules. On June 26, 1996, the Exchange filed Amendment No. 1 to the proposal.⁴ Notice of the proposed rule change and Amendment No. 1 was published for comment and appeared in the Federal Register on July 19, 1996.⁵ No comment letters were received on the proposal. On August 28, 1996, the PSE filed Amendment No. 2 to the proposed rule change.⁶ This order approves the PSE proposal as amended.

⁴⁴ 17 CFR § 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ As a result of Amendment No. 2, no changes are proposed to PSE's firm quote rule (Rule 6.86). The Recommended Fine Schedule pursuant to Rule 10.13, however, is proposed to be revised for violations of Rule 6.86. See note 6, *infra*.

⁴ In Amendment No. 1, the Exchange corrects a technical error in the number of items in the Minor Rule Plan (PSE Rule 10.13) and Recommended Fine Schedule. See letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PSE, to James T. McHale, Attorney, Office of Market Supervision ("OMS"), Division of Market Regulation ("Division"), Commission, dated June 26, 1996 ("Amendment No. 1").

⁵ See Securities Exchange Act Release No. 37434 (July 12, 1996), 61 FR 37785 (July 19, 1996).

⁶ In Amendment No. 2 the Exchange withdraws that portion of the filing which would have defined "broker-dealer" to include "foreign broker-dealers"

I. Description of the Proposal

The Exchange is proposing to amend PSE Rule 6.87 to provide that only non-broker-dealer customer orders are eligible for execution on the Exchange's Automatic Execution System ("Auto-Ex"). This change codifies a long-standing policy of the Exchange to that effect.

The Exchange is also proposing to amend PSE Rule 6.52(a). Rule 6.52(a) currently provides that no member shall place, or permit to be placed, an order with an Order Book Official for an account in which such member or his organization, any other member or member organization, or any non-member broker-dealer has an interest. The Exchange is proposing to replace that provision with one stating that only non-broker-dealer customer orders may be placed with an Order Book Official pursuant to Rule 6.52(a).

The Exchange is also proposing to amend its Minor Rule Plan so that it includes the following rule violation: "Entry of broker/dealer order for execution on Auto-Ex system. (Rule 6.87(a))." The Exchange believes that violations of Rule 6.87(a) are easily verifiable and, therefore, are appropriate for inclusion in the Minor Rule Plan.

The Exchange is also proposing to modify its Recommended Fine Schedule under the Minor Rule plan as follows: First, the current recommended fine for a member who fails to honor a guaranteed market as required by Rule 6.86(a) is \$250 for a first violation, \$500 for a second violation and \$750 for a third violation. The Exchange is proposing to increase these fines to \$500, \$1,500 and \$3,000 for a first, second or third-time violation, respectively.⁷

Second, the recommended fine for a member who fails to identify an order as for a broker-dealer is currently \$250 for a first violation, \$500 for a second violation and \$750 for a third violation. The Exchange is proposing to raise these fines to \$500, \$1,500 and \$3,000 for first, second and third-time violations, respectively.

Third, the Exchange is proposing to establish fines of \$500, \$1,500 and \$300

for purposes of Rule 6.86 and 6.87. The Exchange also included a technical amendment to Rule 10.13 ("Minor Rule Plan") and the Recommended Fine Schedule pursuant thereto. See Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PSE, to James T. McHale, Attorney, OMS, Division, Commission, dated August 27, 1996 ("Amendment No. 2").

⁷ Fines for multiple violations of Options Floor Decorum and Minor Trading Rules are calculated on a running two-year basis. For a discussion of the Exchange's Recommended Fine Schedule, see Securities Exchange Act Release No. 34322 (July 6, 1994), 50 FR 35958 (July 14, 1994).

⁴³ 15 U.S.C. § 78s(b)(2).