Index is a broad-based capitalization-weighted stock index designed and maintained by the AMEX, based on the capitalizations of 30 stocks that are traded on the Hong Kong Stock Exchange (''HKSE'') and whose issuers have major business interests located in Hong Kong. The HKO Index value is calculated by multiplying the price of each component security (in Hong Kong dollars) by its number of shares outstanding, adding the sums, and dividing by the current HKO Index divisor. For valuation purposes, one HKO Index unit is assigned a fixed value of one U.S. dollar. The Exchange adopted a fixed value for the HKO Index unit because Hong Kong has traditionally pegged the value of the Hong Kong dollar to the U.S. dollar.[2]

At midnight on June 30, 1997, sovereignty over Hong Kong will transfer from the United Kingdom to the People's Republic of China, and Hong Kong will become a Special Administrative Region of China. While there has been much debate over what this will mean financially, politically, and socially for the former British colony, statements from the People's Republic of China indicate that the existing currency and financial systems of Hong Kong will remain unchanged. In order, however, to be prepared for any possible changes with respect to the Hong Kong dollar, such as a change in the policy of pegging its value to the U.S. dollar, the Exchange has determined to adopt a floating rate of exchange for the Hong Kong dollar when calculating the value of the HKO Index.

The AMEX will use the WM/Reuters Hong Kong dollar/U.S. dollar exchange rate available at the close of trading in London. AMEX will receive this rate between approximately 11:30 a.m. and 12:00 noon (New York time) each trading day. The Exchange will then use this rate in calculating and disseminating the HKO Index value after it is received on that trading day, and will also use the rate in calculating and disseminating the HKO Index value on the following day until a new value is received, again typically between 11:30 a.m. and 12:00 noon. If on any business day WM/Reuters does not post a closing spot exchange rate for the Hong Kong dollar, the last reported closing spot rate will remain in effect until a new rate is posted. Once the AMEX has received Commission approval to implement this change, it will do so by establishing a separate contract on the HKO Index using the floating rate in its calculation. The current contract using the fixed rate will continue to trade until the expiration of any remaining contracts.[3] No new series will be added using the fixed rate after the new floating rate calculation goes into effect.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act[4] in general and furthers the objectives of Section 6(b)(5)[5] in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and is not designed to permit unfair competition between customers, issuers, brokers, or dealers.

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

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

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

No written comments were either solicited or received.

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 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 at the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR–AMEX–97–18 and should be submitted by June 13, 1997.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97–13609 Filed 5–22–97; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–38650; File No. SR–CBOE–97–15]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto by the Chicago Board Options Exchange, Incorporated, Relating to OEX–SPX Spread Orders

May 16, 1997.

Pursuant to Section 19(b)(1)[1] of the Securities Exchange Act of 1934 (''Act'') and Rule 19b–4 thereunder[2] notice is hereby given that on March 4, 1997, the Chicago Board Options Exchange, Inc. (''CBOE'' or ''Exchange'') filed with the Securities and Exchange Commission (''SEC'' or ''Commission'') the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. On May 15, 1997, the CBOE submitted an amendment (''Amendment No. 1'') to the proposed rule change.[3] The Commission is

[2] As of April 14, 1997, the exchange rate was approximately HK $7.75 per U.S. $1.

[3] As of April 15, 1997, the outstanding interest in HKO Index contracts with expiration dates after July 1, 1997 was as follows: September 1997 series, 2042 contracts; 2042 contracts; December 1997 series, 835 contracts; and January 1998 series, 162 contracts. Phone conversation between Claire McGrath, Managing Director and Special Counsel, AMEX, and Heather Seidel, Attorney, Market Regulation, Commission, on April 18, 1997.

[4] 15 U.S.C. 78f(b).

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

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

[2] 17 CFR 240.19–4.

[3] On May 15, 1997, the CBOE filed Amendment No. 1 to its proposal. In Amendment No. 1, the CBOE revised the proposed language of Rule 24.18 to make it clearer and provided further justification and explanation for providing a special rule of priority for OEX–SPX spread orders. *See* Letter from Timothy Thompson, Senior Attorney, CBOE, to

Continued

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 Exchange proposes to establish a rule to facilitate the transaction of spread orders between S&P 500 Index options (''SPX'') and S&P 100 Index options (''OEX'') at either the OEX trading post or the SPX trading post.

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 section 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, as amended, is to establish a new rule to facilitate the transaction of both legs of a spread order between options on the SPX and options on the OEX at either the OEX trading post or the SPX trading post. This new Rule 24.18 (''Rule''), which sets forth a special procedure for spreads between two products traded at different trading posts, recognizes the unique nature of the two largest trading crowds on the floor of the Exchange and the close relationship of the options traded at those two posts. Member firms routinely get requests from customers to transact a spread strategy between OEX and SPX.[4] Traders and customers alike often employ strategies involving the two options because of the close relationship in the movement between the indexes underlying these options.[5] SPX traders commonly hedge their SPX positions with OEX options, just as OEX traders hedge their OEX positions with SPX options. In addition, many customers and traders of OEX hedge their OEX positions with S&P 500 index features because there are no widely available products with the S&P 100 index as an underlying.[6] Consequently, these customers and traders will employ an OEX–SPX spread strategy to hedge the residual risk from using an imperfect hedge of S&P 500 futures for OEX.[7] Traders and customers have found that trading OEX and SPX in a strategy is a very effective way to manage risk.[8]

Under the current rules, it is difficult for brokers to execute these strategies on behalf of customers.[9] When the two legs of the strategy cannot be quoted at one price and traded at the same post then there is a large risk that the market will move in the time it takes to send the second order to the other trading pit to be executed. Consequently, the second leg of the strategy may not be filled at a price that makes the strategy feasible.[10] In many cases, depending on the movement of the market, the execution of the second leg of the order may exacerbate any risk that already existed and which the strategy was intended to hedge. In contrast, the market for spreads in which both legs can be traded at the same post likely will be tight and competitive.[11] In these cases, there is no risk that the market will move because the legs are being traded together at one price. The markets are likely to be quoted at a narrower bid-ask interval than would be the spread if it was quoted as two legs individually.[12] The Options Clearing Corporation recognizes the benefits of hedging OEX and SPX because these products may be maintained in the same cross-margin account.[13] The Commission also has recognized the relationship between these options by permitting haircut relief for offsetting positions between these options under the risk-based haircut rules.[14]

Although the Rule gives customers (through brokers) and members an opportunity to trade both legs of these spreads at one location on the floor, the procedures in Rule 24.18 serve to protect customer orders in the public customer limit order books of both products and the customer orders being represented in the crowd at both trading posts. This is accomplished, as described below, by requiring the member representing the OEX–SPX spread order to check the public customer limit order books before filing the order and by requiring notice of the order to be sent to the other trading crowd.

Paragraph (a) of the Rule defines an OEX–SPX spread order as an order to buy a stated number of OEX (SPX) options contracts and to sell an equal number of SPX (OEX) options contracts. The requirement that the number of options contracts be equal ensures that this procedure is only used for legitimate spread transactions and is not used to gain unfairly the special priority that is accorded to spread transactions, as detailed further below. Although some customers or traders legitimately trade spreads of equal deltas instead of equal numbers of contracts, the Exchange decided that it would be simpler and easier to surveil for spread orders of equal numbers of contracts. Spreads of equal numbers of OEX and SPX contracts would generally be substantially similar to spreads of equal deltas and should allow for customers and traders accomplish their objectives.

In addition, the Exchange selected spread orders of equal numbers of contracts, rather than equal contract values, because customer interest has generally been expressed in terms of equal numbers of contracts and the value of the indexes and the correlation of the movement of the two indexes is particularly close.[15] The Exchange will continue to review this requirement to determine if a future changes seems warranted.

Paragraph (b) of the Rule sets forth the procedures to be followed in representing and filling an OX–SPX spread order. An OEX–SPX spread order may be represented initially at either the OEX or SPX trading post. The trading post where the order is first represented will be the ''primary trading station'' for purposes of the Rule. Immediately after the order is represented at the primary trading station, or concurrent with the announcement of such order, the member initiating the order must contact the Order Book Official at the other trading station (OEX or SPX). The announcement at the other trading station must specify the terms of the order, a contact person for the order, and the telephone number of the contact person at the primary trading station.[16]

Elaine Darroch, Attorney, Division of Market Regulation, Securities and Exchange Commission, dated May 14, 1997.

[4] *See* Amendment No. 1, *supra* note 3.

[5] *Id.*

[6] *Id.*

[7] *Id.*

[8] *Id.*

[9] *Id.*

[10] *Id.*

[11] *Id.*

[12] *Id.*

[13] *Id.*

[14] *Id.*

[15] *Id.* The value of OEX is 823.55 and SPX is 837.66 as of the close of May 12, 1997. *See* Amendment No. 1, *supra* note 3.

[16] The contact person does not have to, but may, provide brokerage to the members of the other trading crowd. The notice, however, will inform the members of he other trading crowd who they should contact if they want to participate in the trade.

The form of the announcement in the other trading station will be determined by the appropriate Floor Procedure Committee for the trading station where the announcement is to be made.

Once the order has been represented at the primary trading station and the order has been announced at the other trading station, the member representing the order may fill the order at the best net debit or credit, whether from the primary trading station or from the other trading station, provided the conditions described below are met. The priority of the bids and offers on OEX–SPX spread orders will be determined by the same concept that applies to spread orders on a single class of options as set forth in Rule 6.45(d). Paragraph (b)(iii) provides that a member holding an order on an OEX–SPX spread that is priced net at a multiple of 1⁄16 i.e., 1⁄4, 3⁄8, 7⁄16, 1⁄2, etc.) will have priority over bids and offers in the trading crowd if both legs of the OEX–SPX spread would trade at a price that is at least equivalent to quotes in the crowd. Similarly, such an order has priority over bids and offers in the customer limit order book [17] if at least one leg of the OEX–SPX spread would trade at a price that is better than the corresponding bid or offer in the book. Bids or offers that are part of an OEX–SPX spread and that are not priced at a net multiple of 1⁄16 while permissible, will not be entitled to priority under (b)(iii) to Rule 24.18. As with other spread orders, the Exchange has determined that the ability to transact spread orders efficiently justifies the slight deviation from the normal rules of priority that require an order to better any bids or offers in the customer limit order book before they may be executed.

As an illustration, assume that the relevant OEX option, Option O, is quoted at 5 bid, 5 1⁄8 asked, and, the relevant SPX option, Option S, is quoted at 6 bid, 6 1⁄8 asked, and assume that all four quotes are represented in the book. In that instance, a spread involving the purchase (or sale) of Option O and the sale (or purchase) of Option S may trade at a net credit or debit of 1 (e.g., a net credit of 1 if Option O is bought at 5 and Option S sold at 6, or a net debit of 1 if Option O is sold at 5 1⁄8 and Option S is bought at 6 1⁄8. In this example, because the net price is multiple of 1⁄16 and the execution of the spread involves taking the same side of the market as the book on one side of the spread at the book price, but bettering the book price on the other side of the market, the spread would receive priority. (That is, in the spread consisting of the purchase of Option O at 5 and the sale of Option S at 6, only the *purchase* of Option O occurs at the same price and on the same side of the market as the book, which is bid at 5; the *sale* of Option S at 6 betters the market in the book, because the *ask* price in the book is 6 1⁄8.) In this same example, it would not be permissible under paragraph (b)(iii) of Rule 24.18 to trade the spread at a net debit of 7⁄8 by selling the first option at 5 1⁄8 and buying the second at 6, because this trade would be executed at the same price and on the same side of the market as the book on *both sides* of the spread.

Paragraph (b) (iv) permits bids and offers from the other trading crowd to participate equally with equal bids and offers from the primary trading station if those bids and offers from the other trading station are received promptly. The determination of whether an order is received promptly will depend on the size and the complexity of the order involved. For example, a large spread order might take a minute to execute, while a small spread order of ten contracts might require only 15 seconds to execute. The amount of time to satisfy the time requirement would be different in these two circumstances.[18]

The Exchange will investigate on a case-by-case basis any complaints associated with the handling of OEX–SPX spread orders as it is made aware of them.

The Exchange believes that the proposed rule will allow the efficient conduct of OEX–SPX spread orders that will be beneficial to both customers and traders; at the same time, the proposed rule change is consistent with and furthers the objectives of Section 6(b)(5) of the Act in that it is designed to perfect the mechanisms of a free and open market and to protect investors and the public interest.

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

CBOE does not believe that the proposed rule change will impose any burden on competition.

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

No written comments were solicited or 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 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 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 at the Commission's Public Reference Section, 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 the CBOE. All submissions should refer to File No. SR–CBOE–97–15 and should be submitted by June 13, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[19]

Margaret H. McFarland,

Deputy Secretary.

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[17] The Exchange notes that one of the conditions for executing a spread order at the best net debit or credit is that the member has determined that the order may not be executed by a combination of transactions with the bids and offers displayed in the OEX or SPX customer limit order book or by the displayed quotes of the training crowds. The Exchange states that paragraph (b)(iii) of Rule 24.18 may be reasonably and fairly interpreted to mean that if the order can be executed in the marketplace at the order's price or at a better price, then the order cannot be executed as a spread order at the best net debit or credit. *See* Amendemnt No. 1, *supra* note 3.

[18] *Id.*

[19] 17 CFR 200.30–3(a) (12).