

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

**Surveillance.** The Exchange will use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in Index options, Index LEAPS, and FLEX Options on the DJUA.

**Position Limits.** Options on the DJUA would be subject to the position limits for industry index options set forth in Rule 24.4A. Currently, standard options on the DJUA would qualify for a position limit of 15,000 contracts under the terms of Rule 24.4A.

**Exchange Rules Applicable.** As modified herein, the Rules in Chapter XXIV will be applicable to Options on the DJUA. Narrow-based margin rules will apply to the Index as set forth in Rule 24.11.

**Capacity.** CBOE believes it has the necessary systems capacity to support new series that would result from the introduction of Options on the DJUA. CBOE has also been informed that the Options Price Reporting Authority ("OPRA") also has the capacity to support the new series. In making this determination, the Exchange notes that OPRA has made, and is in the process of making, significant enhancements to its capacity. These enhancements include: upgrades to computers; the addition of lines to firms, vendors and exchanges; and the introduction of new technology incorporating high speed data transmission. All of these enhancements will be in place prior to the scheduled introduction of these options contracts and will give more than sufficient capacity to deal with these and other new products.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)<sup>6</sup> of the Act in general and furthers the objectives of Section 6(b)(5)<sup>7</sup> in particular in that it will permit trading in options based on the DJUA 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.

## 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-CBOE-97-28 and should be submitted by July 29, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38790; File No. SR-CBOE-97-27]

## Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to Listing of Regular Options, Full and Reduced Value Long-Term Index Options, and FLEX Options on the Dow Jones Transportation Average

June 30, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 23, 1997, 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 Exchange hereby proposes to amend certain of its rules to provide for the listing and trading on the Exchange of options on the Dow Jones Transportation Average<sup>TM</sup> ("DJTA" or "Index"), a narrow-based index designed by Dow Jones & Company, Inc. ("Dow Jones<sup>TM</sup>").<sup>3</sup> Options on the DJTA will be cash-settled and will have European-style exercise provisions. The Exchange also proposes to amend its rules to provide for the trading of Flexible Exchange Options ("FLEX Options") on the DJTA.

The text of the proposed rule change is available at the Office of the Secretary, CBOE and at the Commission.

<sup>1</sup> 15 U.S.C. § 78s(b)(1).

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

<sup>3</sup> "Dow Jones<sup>TM</sup>," and "Dow Jones Transportation Average<sup>TM</sup>" are trademarks of Dow Jones & Company, Inc. and have been licensed for use for certain purposes by the Chicago Board Options Exchange, Inc. CBOE's options based on the Dow Jones Transportation Average are not sponsored, endorsed, sold or promoted by Dow Jones, and Dow Jones makes no representation regarding the advisability of investing in such products.

for exercise settlement purposes) ordinarily would be determined. See Securities Exchange Act Release No. 37315 (June 17, 1996), 61 FR 42671 (order approving SR-OCC-95-19).

<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

<sup>8</sup> 17 CFR 200.30-3(a)(12).

## II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

#### 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 DJTA. The DJTA is a price-weighted index of 20 of the largest, most liquid U.S. transportation industry stocks.<sup>4</sup> Options will be based on one-tenth of the DJTA level.

**Index Design.** The DJTA has been designed to measure the performance of certain high capitalization transportation stocks. The DJTA has been calculated by Dow Jones & Company since 1896 and is one of the most commonly watched indexes of the U.S. stock market. The DJTA is a price-weighted index with each stock affecting the Index in proportion to its market price. Each stock in the Index is eligible for options trading. The Exchange believes that in all but one minor respect, options on the DJTA meet the generic listing criteria for options on narrow-based indexes which may be filed with the Commission under Exchange Rule 24.2(b) as a stated policy, practice, or interpretation within the meaning of paragraph (3)(A) of subsection 19(b) of the Exchange Act. One of the 20 stocks in the Index (XTRA Corp.) does not meet the trading volume criteria set forth in Paragraph (b)(3) of CBOE Rule 24.2.

On June 5, 1997, the 20 stocks ranged in capitalization from \$352 million to \$16.7 billion. The total market capitalization of the Index was \$101.9 billion, the average capitalization was \$5.1 billion and the median capitalization of the firms in the Index

was \$2.5 billion. The largest stock accounted for 9.87% of the total weight of the Index, while the smallest accounted for 1.98%. The top five stocks in the Index accounted for 45.01% of the total weight of the Index.

**Calculation.** The DJTA is a price-weighted index. The level of the index reflects the total price of the component stocks divided by the Index Divisor. The DJTA was first calculated on September 8, 1896 and the index value was 48.55 on that date. The Index had a closing value of 2683.55 on June 5, 1997. The daily calculation of the DJTA is computed by dividing the aggregated price of the companies in the Index by the Index Divisor. The Divisor keeps the Index comparable over time and is adjusted periodically to maintain the Index. The values of the Index will be calculated by Dow Jones & Company or its designee and will be disseminated at 15-second intervals during regular CBOE trading hours to market information vendors via the Options Price Reporting Authority ("OPRA") or the Consolidated Tape Association.

**Maintenance.** Dow Jones is responsible for maintenance of the DJTA. Index maintenance includes monitoring and completing the adjustments for company additions and deletions, stock splits, stock dividends (other than an ordinary cash dividend), and stock price adjustments due to company restructuring or spinoffs. If required, the Index Divisor will be adjusted to account for any of the above changes. Generally, index components are replaced infrequently. The editors of the Wall Street Journal are responsible for component additions and deletions. These changes are announced in the Wall Street Journal and through the Dow Jones News Service generally three to five days prior to implementation. The Index is currently composed of 20 stocks and it is expected that it will remain at 20.

**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-one-hundredth of the Index level, or one-tenth of the value of full-value options. The current and closing index value of any such reduced-value LEAP will, after such initial computation, be rounded to the nearest one-hundredth. The Exchange will also provide for the trading of FLEX Options on the Index.

Strike prices will be set to bracket the index in 2½ point increments or greater. The minimum tick size for series trading below \$3 will be ¼¢ and for series

trading above \$3 the minimum tick will be ⅛¢. The trading hours for options on the Index will be from 8:30 a.m. to 3:02 p.m. Chicago time.

**FLEX Option Trading.** The Exchange is proposing changes to its FLEX rules to provide for the trading of FLEX options on the DJTA. The proposed changes include an amendment to the FLEX Option position limits. Position limits would be as established by the Exchange but in no event would be greater than five times the limits for standard options on the DJTA.

**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 3:02 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 by Dow Jones 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.<sup>5</sup> When the last trading day is moved because of Exchange holidays (such as when CBOE is closed on the Friday before expiration), the last trading day for expiring options will be Wednesday and the exercise settlement value of Index options at expiration will be determined at the opening of regular Thursday trading.

**Surveillance.** The Exchange will use the same surveillance procedures currently utilized for each of the Exchange's other index options to monitor trading in Index options, Index LEAPS, and FLEX Options on the DJTA.

**Position Limits.** Options on the DJTA would be subject to the position limits for industry index options set forth in Rule 24.4A. Currently, standard options on the DJTA would qualify for a

<sup>4</sup> A list of the component stocks and their relative weights was submitted by the Exchange as Exhibit B to the rule filing. Exhibit B is available at the Exchange and at the Commission at the address in Section IV, *infra*.

<sup>5</sup> The Commission notes that pursuant to Article XVII, Section 4 of the Options Clearing Corporation's ("OCC") by-laws, OCC is empowered to fix an exercise settlement amount in the event it determines a current index value is unreported or otherwise unavailable. Further, OCC has the 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 (order approving SR-OCC-95-19).

position limit of 15,000 contracts under the terms of Rule 24.4A.

*Exchange Rules Applicable.* As modified herein, the Rules in Chapter XXIV will be applicable to Options on the DJTA. Narrow-based margin rules will apply to the Index as set forth in Rule 24.11.

*Capacity.* CBOE believes it has the necessary systems capacity to support new series that would result from the introduction of Options on the DJTA. CBOE has also been informed that OPRA also has the capacity to support the new series. In making this determination, the Exchange notes that OPRA has made, and is in the process of making, significant enhancements to its capacity. These enhancements include: upgrades to computers; the addition of lines to firms, vendors and exchanges; and the introduction of new technology incorporating high speed data transmission. All of these enhancements will be in place prior to the scheduled introduction of these options contracts and will give more than sufficient capacity to deal with these and other new products.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) <sup>6</sup> of the Act in general and furthers the objectives of Section 6(b)(5) <sup>7</sup> in particular in that it will permit trading in options based on the DJTA 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.

### *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, 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 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-CBOE-97-27 and should be submitted by July 29, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-38795; File No. SR-CHX-97-17]

### **Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Stock Exchange, Incorporated Relating to Tier 1 Listing Standards**

June 30, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 25, 1997, the Chicago Stock Exchange, Inc.

("CHX" 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. 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 Exchange proposes to amend Article XXVIII, rule 14 of the Exchange's Rules relating to Tier 1 listing standards. The text of the proposed rule change is available at the Office of the Secretary, CHX, 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 self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspect of such statements.

#### *A. Self-Regulatory Organization's Statement of the Purposes of, and Statutory Basis for, the Proposed Rule Change*

##### 1. Purpose

The National Securities Markets Improvement Act of 1996<sup>3</sup> amended Section 18 of the Securities Act of 1933<sup>4</sup> to provide for exclusive federal registration of securities listed, or authorized for listing, on the New York Stock Exchange ("NYSE"), the American Stock Exchange ("Amex") or listed on the National Market System of the Nasdaq Stock Market ("Nasdaq/NMS"), or any other national securities exchange designated by the Commission by rule to have substantially similar listing standards to those markets. The CHX petitioned the SEC in February of this year to adopt a rule finding the CHX's Tier 1 listing standards to be substantially similar to those of the NYSE, Amex or Nasdaq/NMS. If the SEC adopts such a rule, any security listed on the CHX under its Tier 1

<sup>6</sup> 15 U.S.C. § 78f(b).

<sup>7</sup> 15 U.S.C. § 78f(b)(5).

<sup>8</sup> 17 C.F.R. 200.30-3(a)(12).

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

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

<sup>3</sup> Pub. L. No. 104-290, 110 Stat. 3416 (1996)

<sup>4</sup> 15 U.S.C. 77s.