

be unlawful for any depositor or trustee of a registered unit investment trust holding the security of a single issuer to substitute another security for such security unless the Commission shall have approved such substitution." The legislative history of Section 26(b) provides that the Commission will approve a substitution if it is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. The purpose of Section 26(b) is to protect the expectation of investors in a unit investment trust that the unit investment trust will accumulate the shares of a particular issuer, and to prevent unscrutinized substitutions which might, in effect, force shareholders dissatisfied with the substituted security to redeem their shares, thereby incurring either a loss of the sales load deducted from initial proceeds, an additional sales load upon reinvestment of the redemption proceeds, or both. Section 26(b) affords protection to investors by preventing a depositor or trustee of a unit investment trust holding shares of one issuer from substituting for those shares the shares of another issuer, unless the Commission approves that substitution.

2. Applicants state that Western Life has reserved the right to substitute securities held by the Sub-Accounts of the Account and that this right is disclosed in the Contracts and prospectus for the Contracts.

3. Applicants represent that the Salomon Portfolio is a suitable and appropriate investment vehicle for Contract owners. Applicants assert that the Salomon Portfolio has a lower advisory fee and a lower expense ratio than the BlackRock Portfolio. Applicants also assert that the Salomon Portfolio has a similar investment objective, and to date has experienced an investment return comparable to the BlackRock Portfolio. Applicants anticipate that after the proposed substitution, the Salomon Portfolio will provide Contract owners with comparable or more favorable investment results than would be the case if the proposed substitution did not take place.

4. Applicants represent that the Salomon Portfolio has similar investment policies to the BlackRock Portfolio, with each investing in many of the same types of fixed income securities.

5. Applicants generally submit that the proposed substitution meets the standards that the Commission and its staff have applied to substitutions that have been approved by the Commission.

## Conclusion

Applicants submit that, for the reasons summarized above, the proposed substitution is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the 1940 Act.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

**Jonathan G. Katz,**  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39347; File No. SR-Amex-97-41]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the American Stock Exchange, Inc. Relating to Trading Differentials for Options Contracts

November 21, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 3, 1997, the American Stock Exchange, Inc. ("Amex" 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 proposes to amend Rules 952 and 951C to adopt a procedure that would allow the Exchange to establish the minimum fractional change (or trading increments) for options. The text of the proposed rule change is available at the Office of the Secretary, Amex 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 aspects of such statements.

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

##### 1. Purpose

Currently, Exchange Rule 952 provides that the minimum fractional change for stock options trading at \$3.00 or higher shall be one-eighth and for stock options trading under \$3.00 shall be one-sixteenth. Additionally, Rule 951C provides that the minimum fractional change for stock index options shall be one-eighth for stock index options trading at a premium greater than \$300.00 and stock index options less than \$300.00 shall be one sixteenth. The Exchange now proposes to amend Rules 952 and 951C to give the Board of Governors the authority to establish the minimum fractional changes for options. Until such time as the Board determines to use its authority to change the minimum fractional changes the current rules described above will apply. The proposal will allow the Exchange to revise its minimum fractional changes quickly in response to changes adopted in the underlying stock markets and at the other options exchanges. When the Board of Governors has determined to change the minimum trading increments, the Exchange will designate such a change as a stated policy, practice, or interpretation with respect to the administration of Rules 952 and 951C within the meaning of subparagraph (3)(A) of subsection 19(b) of the Exchange Act and will file a rule change for effectiveness upon filing with the Commission.

As derivatives securities, the prices of options are determined in reference to the prices of the underlying securities. Consequently, the Exchange believes that where practicable, the Exchange should have minimum increments comparable to those applicable to the securities underlying its options.<sup>3</sup>

<sup>3</sup> See Exchange Act Rel. No. 38571 (May 5, 1997), 62 FR 25682 (May 9, 1997) (Commission order approving a change in the minimum increment to 1/16 for securities listed on the American Stock Exchange); Exchange Act Rel. No. 38678 (May 27, 1997), 62 FR 30363 (June 3, 1997) (Commission order approving a change in the minimum increment to 1/16 for Nasdaq-listed securities); and Exchange Act Rel. No. 38897 (Aug. 1, 1997), 62 FR

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

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

## 2. Statutory Basis

The Exchange represents that the proposed rule change is consistent with Section 6(b)(5) of the Act<sup>4</sup> 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 discrimination 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-97-41 and should be submitted by December 22, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>5</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39348; File No. SR-CBOE-97-49]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto by the Chicago Board Options Exchange, Inc. To Change the Minimum Increment for Bids and Offers in Options

November 21, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 25, 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. On November 17, 1997, the Exchange submitted to the Commission an amendment to the proposed rule change.<sup>3</sup> 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 Rule 6.42 by adopting a procedure that would allow the Exchange to establish

options trading differentials on an expedited basis. 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 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 Exchange is proposing to amend Exchange Rule 6.42 to give the Board of Directors the authority to establish the minimum trading increments for option contracts. Currently, Rule 6.42 states that bids and offers shall be expressed in eighths of \$1 unless a different increment is approved by the Floor Procedure Committee for an option contract of a particular series. An interpretation to the Rule states that bids and offers for all option series trading below \$3 shall be expressed in sixteenths of a dollar. Until such time as the Board determines to make a change the current standards will apply.

The proposed change would allow the Exchange to change the trading increments on an expedited basis and thus, allow the Exchange to respond appropriately to changes in the minimum trading increment in the markets for the securities underlying CBOE options or to changes in the minimum trading increments for one of the other options exchanges. When the Board of Directors determines to change the trading increments, the Exchange will designate such change as a stated policy, practice, or interpretation with respect to the administration of Rule 6.42 within the meaning of subparagraph (3)(A) of subsection 19(b) of the Exchange Act and will file a rule change for effectiveness upon filing with the Commission.

There has been a movement within the industry to reduce the minimum trading and quotation increments

42847 (Aug. 8, 1997) (Commission order approving a change in the minimum increment to 1/16th for NYSE listed securities).

<sup>4</sup> 15 U.S.C. 78f(b).

<sup>5</sup> 17 CFR 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> By adding the term "appropriate" before the term "Floor Procedure Committee" in the text of the rule, the amendment clarified that the decision to change the increments with respect to a particular class of options will be made by whichever Floor Procedure Committee has jurisdiction over trading in that option class. The amendment also replaced the original Exhibit 1 that was sent to the Commission with a revised Exhibit 1. See Letter from Timothy H. Thompson, CBOE, to Christine Richardson, Division of Market Regulation, Commission (Nov. 14, 1997) ("Amendment No. 1")