

The entity receiving the transfer, in this case an employer payment in excess of pension expense, does not sacrifice anything of value to obtain the payment, and the transferring entity does not acquire anything of value beyond what it would have gotten had it contributed an amount equalling normal cost less the employees' contribution. Thus, such payments meet the description of "transfer-out" provided in SFFAS No. 7.⁶

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39584; International Series Release No. 1112; File No. SR-CBOE-97-64]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by Chicago Board Options Exchange, Incorporated, Relating to Listing and Trading of Warrants on the Asia Tiger 100 Index

January 27, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 5, 1997, the Chicago Board Options Exchange, Incorporated ("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 CBOE. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The CBOE proposes to list and trade warrants on the CBOE Asia Tiger 100 Index ("Asia 100" or "Index"), a broad-based index comprised of the 100 highest capitalized stocks from eight major Asian markets.³ The text of the

during a period from providing goods, rendering services, or carrying out other activities related to an entity's programs and missions, the benefits from which do not extend beyond the present operating period.

⁶For a description of transfers-in/out, see paragraphs 74 and 344 of SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting."

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³The eight Asian markets included in the Index are: Hong Kong; Indonesia; Malaysia; the Philippines; Singapore; South Korea; Taiwan; and Thailand.

proposed rule change is available at the Office of the Secretary, CBOE and at the Commission.⁴

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

In its filing with the Commission, the CBOE included statements concerning the purpose of and basis for the proposed rule change and represented that it did not receive any comments 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 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to permit the CBOE to list and trade warrants on the Index. The Exchange is permitted to list and trade index warrants under CBOE Rule 31.5(E). The listing and trading of index warrants on the Asia 100 Index will comply in all aspects with CBOE Rule 31.5(E), except that the percentage of foreign country securities that are not subject to an effective comprehensive surveillance sharing agreement ("CSSA"), as defined below, will be greater than the 20% prescribed by Rule 31.5(E)(7).

Rule 31.5(E) requires, among other things, that: (1) the issuer has a tangible net worth in excess of \$250,000,000 and otherwise substantially exceeds earnings requirements in Rule 31.5(A) or meet the alternate guideline in paragraph (4) of Rule 31.5(E); (2) the term of the warrants shall be for a period ranging from one to five years from date of issuance; (3) the minimum public distribution of such issues shall be 1,000,000 warrants, together with a minimum of 400 public holders, and have an aggregate market value of \$4,000,000; and (4) foreign country securities or American Depositary Receipts ("ADRs") that are not subject to an effective CSSA and have less than 50% of their global trading volume in dollar value in the United States, shall not, in the aggregate, represent more

⁴The text of the proposed rule change contains a list of the component securities including the countries they represent, the individual component security weights, the country Index weights, average daily trading value for each security and country and market capitalization for each security and country.

than 20% of the weight of an index, unless such index is otherwise approved for warrant or option trading.

Index design. The Index was designed, and will be maintained, by the Exchange. The CBOE represents that the Index is a broad based index currently composed of the 100 highest capitalized stocks from Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand. These stocks were selected for their market capitalization and liquidity. The CBOE believes that they are representative of the composition of the broader equity markets in each of the eight countries. The component securities represent several industry groups including: airlines; financial institutions; high technology; real estate; telecommunications; and utilities.

The total capitalization of the component securities in the Index on November 17, 1997 was \$517 billion.⁵ The average capitalization on that date was \$5.17 billion. The individual market capitalization of these component securities ranged from \$598 million to \$41.76 billion on November 17, 1997. The components in the Index had average U.S. dollar volume of \$20.56 million per day and ranged from \$600,000 to \$227.6 million per day during 1997 through October 31. As of November 17, 1997, the highest weighted component security (HSBC Holdings, PLC of Hong Kong) comprised approximately 4.98% of the index weight while the lowest weighted component security (Hang Lung Development, Co. of Hong Kong) comprised approximately 0.22% of the Index weight. The five highest weighted securities comprised approximately 19.82% of the index weight.

The Asia 100 is a modified capitalization-weighted index. Each of the stocks from a particular country will be adjusted annually to reflect its relative market value compared to the other stocks from that country. In addition, each country is weighted based on the relative size of its stock market in relation to that of other Asia 100 countries. The CBOE believes this design gives the Index significant coverage of the countries' largest and most liquid stocks and a proxy for the stock portfolios held by foreign investors in these countries. The CBOE also believes that warrants on the Index will provide investors with a low-cost means of participating in the performance of the Asian economy and hedging against the risk of investing in those economies.

⁵All values are expressed in U.S. dollars at the prevailing rates on November 17, 1997.

Country weights will be based upon the relative size of each country's stock market at the time the Index is established. Country weights will be rounded to the nearest 2% based on the International Federation of Stock Exchange month-end market values used in the country rebalancing. For example, a country with an Asia 100 market share of 28.67% will have a country weight of 28%. Once a country's weight is determined, the individual stocks within a country will be selected based on the Stock Selection Criteria, as defined below.

When required to make the country weights sum up to 100% due to rounding, the country weight whose weight would normally be rounded up (down) will be rounded down (up) if the weight is the closest to the midpoint between two weights. Country weights are capped at 40% for the largest country and at 20% for a country with which there is an effective comprehensive surveillance sharing agreement, as defined below. Currently, the Exchange has effective CSSAs, as defined below, with Hong Kong and Taiwan and is in discussion with Malaysia to finalize an agreement.

Initial listing and maintenance criteria and rebalancing. To be included in the Index a stock must meet the following minimum stock selection criteria: (1) The minimum market value of the company during the past year must have been greater than \$50 million; (2) the minimum dollar trading value of turnover of the stock must have been \$100 million in the past year; (3) the minimum monthly trading volume of the stock in any month during the past year must have been greater than \$5 million; (4) the stock must have traded on at least 95% of the country's trading days; and (5) at least 20% of a company's stock must be available to foreign investors.

The Index will be rebalanced annually (most likely in March) in the event that a country's stock market expands or contracts in relation to the markets of the other countries represented in the Index. There will be a 4% limit on the change that will be made to a country's weight at the rebalancing so that a single year aberration for a particular market does not improperly affect the Index. The weights of other countries will be adjusted accordingly. A country's whose weight falls below 1% may be retained in the Index based on the Exchange's determination of foreign investment in the country and other factors. CBOE staff may determine to retain a country's weight in the Asia 100 Index at the 2% level after its weight has fallen below

1% of the market value of the countries represented in the Index. Weights of the other countries will be adjusted accordingly.

Stock weights within a country will be rebalanced twice annually (most likely in March and September) of each year based on the capitalization of stocks and the country weights determined at the annual country weighting rebalancing as of the last business day of the previous year. Each stock's price on the day of the rebalancing will be multiplied by the number of shares (rounded to the fourth decimal place) so that the stock weight in the Index represents its share of the market value of the stocks selected within the country. Stock weights will be capped such that the weight of the largest stock in a country may not be greater than 50% of that country's weight at rebalancing. Weights of the other stocks of the country will be adjusted accordingly. For example, if a stock represents 30% of the market value within a country, its weight within the country will be 30%. Further, if the stock represents 30% of the market value in a country with an Asia 100 country weight of 28%, the stock's weight in the entire Asia 100 Index will be 8.4%, i.e. 30% share within the country x 28% country weight=8.4%. The weight of each selected stock will remain constant until the next stock rebalancing, except for adjustments due to circumstances described below.

Stocks in the Asia 100 Index may need to be replaced between rebalancings due to corporate, governmental or regulatory actions or when the stock no longer meets the eligibility criteria. In these cases, Exchange staff will replace the stock with a stock from a replacement list of stocks maintained by Exchange staff. Eligible stocks will be ranked by market capitalization on the date of the rebalancing. Also, the Exchange staff will, where the circumstances permit, endeavor to provide at least three business days notice prior to making such changes. To maintain continuity of the Index, the divisor of the Index will be adjusted to reflect certain events relating to the component stocks. These events include, but are not limited to, spin-offs, certain rights issuances, and mergers and acquisitions.

Calculation and dissemination of Index value. The CBOE asserts that 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 Index base value was established at 200 on November 17,

1997. The level of the Index reflects the total market value of all 100 component stocks relative to a particular base period. The daily calculation of the Asia 100 Index is computed by dividing the total market value of the 100 companies in the Index by the Index divisor. The divisor keeps the Index comparable over time and is adjusted periodically to maintain the Index. Similar to other stock index values based on Asian markets, the value of the Index will be calculated by CBOE and disseminated once per day prior to the opening in the U.S. via the Options Price Reporting Authority or the Consolidated Tape Association.⁶

In the event that a security does not trade on a given day, the previous day's last sale price is used for purposes of calculating the Index. Prices used to value the stocks will be based upon the closing prices for the stocks at the primary exchanges for the respective stocks. Primary and backup pricing sources, including Bloomberg, will be used to get the closing price for the stocks. Stocks in the Asia 100 Index will be valued in U.S. dollars using each country's cross-rate to the U.S. dollar. Bloomberg's Composite New York rates, or comparable rates, quoted at 7:00 a.m. Chicago time will be used to convert the stock prices from the respective countries to U.S. dollars. If there are several quotes at 7:00 a.m. for the currency, the first quoted rate in that minute will be used to calculate the Asia 100 Index. In the event that there is no Bloomberg exchange rate for a country's currency at 7:00 a.m., stocks will be valued at the first U.S. dollar cross-rated quoted prior to 7:00 a.m.

Index warrant trading (exercise and settlement). The proposed warrants will be direct obligations of their issuer subject to cash-settlement in U.S. dollars, and either exercisable throughout their life (i.e., American style) or exercisable only on their expiration date (i.e., European style). Upon exercise, or at the warrant expiration date (if not exercisable prior to such date), the holder of a warrant structured as a "put" would receive payment in U.S. dollars to the extent that the index value has declined below a pre-state cash settlement value. Conversely, holders of a warrant structured as a "call" would, upon exercise or at expiration, receive payment in U.S. dollars to the extent that the index value has increased above the pre-stated cash settlement value. If "out-of-the-money" at the time of

⁶None of the Asian markets represented in the Index are open for trading during U.S. market trading hours.

expiration, the warrants would expire worthless.

The procedures for determining the cash settlement value for the warrants have not yet been determined by the CBOE. Once those procedures have been determined by the CBOE, they will be fully set forth in the prospectus and in the Information Circular distributed by the Exchange to its membership prior to the commencement of trading the warrant.⁷

Warrant listing standards and customer safeguards. Sales practice rules applicable to the trading of index warrants are provided for in Exchange Rule 30.50 and to the extent provided by Rule 30.52 they are also contained in Chapter IX of the Exchange's Rules. Rule 30.50 governs, among other things, communications with the public. Rule 30.52 subjects the transaction of customer business in stock index warrants to many of the requirements of Chapter IX of the Exchange's rules dealing with public customer business, including suitability. For example, no member organization may accept an order from a customer to purchase a stock index warrant unless that customer's account has been approved for options transactions. The listing and trading of index warrants on the Asia 100 Index will be subject to these guidelines and rules.

Other exchange rules. The margin requirement for a short Index warrant will be 100% of the premium plus 15% of the underlying value, less out-of-the-money dollar amount, if any, to a minimum of 10% of the Index Value. A long Index warrant position must be paid for in full. Straddles will be permitted for call and put Index warrants covering the same underlying value. The margin requirements are provided for under Exchange Rules 30.53 and 12.3.

The applicable position and exercise limit will be determined pursuant to Exchange Rule 30.35(a). Pursuant to Exchange Rules 4.13(a) and 30.35(e) each member will be required to file a report with the Department of Market Regulation of the Exchange identifying those customer accounts with an aggregate position in excess of 100,000 Index warrants overlying the same stock index.

Surveillance. In evaluating new derivative instruments, the Commission, consistent with the protection of investors, considers the degree to which the derivative instrument is susceptible

to manipulation. The ability to obtain information necessary to detect and deter market manipulation and other trading abuses is a critical factor in the Commission's evaluation. It is for this reason that the Commission requires that there be a CSSA in place between an exchange listing or trading a derivative product and the exchanges trading the stocks underlying the derivative contract that specifically enables officials to survey trading in the derivative product and its underlying stocks.⁸ Such agreements provide a necessary deterrent to manipulation because they facilitate the availability of information needed to fully investigate a potential manipulation if it were to occur. For foreign stock index derivative products, these agreements are especially important to facilitate the collection of necessary regulatory, surveillance and other information from foreign jurisdictions.

In order to address the above noted concerns, the CBOE entered into an effective CSSA agreement with the Stock Exchange of Hong Kong ("HKSE") on October 1, 1992, pursuant to which the CBOE will be able to obtain market surveillance information from the HKSE. The CBOE also entered into an effective CSSA with the Taiwan Stock Exchange in October 1997. In addition, the CBOE entered into a sharing agreement with the Kuala Lumpur (Malaysia) Stock Exchange on January 6, 1995 which is currently being reviewed by the Commission to determine its effectiveness. In addition, the CBOE notes that no single uncovered country in the Index may represent more than 20% of the Index weight.

As of November 17, 1997, stocks from Hong Kong (28% Index weight), Malaysia (20% Index weight) and Taiwan (18% Index weight) represent 66% of the Index weight. As a result, no single uncovered country represents more than 10% (Singapore) of the Index weight and no two uncovered countries represent more than 18% (Singapore and South Korea) of the Index weight. Although the Asia 100 does not comply with CBOE Rule 31.5(E)(7), because foreign country securities or ADRs that

⁸The Commission believes that the ability to obtain relevant surveillance information, including, among other things, the identity of the ultimate purchasers and sellers of securities, is an essential and necessary component of a CSSA. A CSSA should provide the parties thereto with the ability to obtain information necessary to detect and deter market manipulation and other trading abuses. Consequently, the Commission generally requires that a CSSA require that the parties to the agreement provide each other, upon request, information about market trading activity, clearing activity and customer identity. See Securities Exchange Act Release No. 31529 (November 27, 1992).

are not subject to a CSSA and have less than 50% of their global trading volume in dollar value in the United States, do not, in the aggregate, represent more than 20% of the weight of an index, the CBOE believes that its existing effective CSSAs along with the fact that the Index contains 100 component securities from eight countries effectively eliminates the possibility of manipulation.

2. Basis

The CBOE believes that the proposed rule change is consistent with Section 6 of the Act in general and furthers the objectives of Section 6(b)(5) of that Act in particular, in that it will permit investors to trade warrants on the Asia 100 Index pursuant to Exchange rules designed to prevent fraudulent and manipulative acts and practices, thereby promoting just and equitable principles of trade, removing impediments to and perfecting the mechanism of a free and open market and a national market system, and protecting investors and the public interest.

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

The 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 date of publication of the 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 such 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, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the

⁷Phone conversation between Timothy Thompson, CBOE and Marianne H. Duffy, Special Counsel, Division of Market Regulation, Commission on January 22, 1998.

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 in the Commission's Public Reference Room, 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 CBOE. All submissions should refer to File No. SR-CBOE-97-64 and should be submitted by February 25, 1998.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39590; File No. SR-DCC-97-12]

Self-Regulatory Organizations; Delta Clearing Corp.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Clarify Procedures Relating to Collateral Substitution and Termination

January 28, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act"),¹ notice is hereby given that on December 31, 1997, Delta Clearing Corp. ("DCC") 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 primarily prepared by DCC. 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 purpose of the proposed rule change is to clarify certain procedures for repurchase agreement transactions

with respect to collateral substitution and termination.

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

In its filing with the Commission, DCC included statements concerning the purpose of and basis for the proposed rule change and any comments received by DCC on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. DCC has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.²

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

On June 28, 1996, the Financial Accounting Standards Board issued Statement No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("FASB 125"). FASB institutes new accounting rules for generally accepted accounting principles applicable to all transactions involving transfers of financial assets, including repurchase agreements and buy-back/sell-back transactions. FASB 125 became effective on January 1, 1998.

Under FASB 125, the accounting treatment of repurchase transactions may differ based on the specific terms of each transaction. For example, where the repurchase agreement provides the purchaser with the right to sell or to repledge the underlying collateral and the seller does not have the right to substitute the securities used as collateral or to terminate the agreement on short notice (i.e., no control over the collateral), FASB 125 will require the seller to classify the securities used as collateral as a "receivable for securities pledged" and not as "securities in inventory" as they are currently classified.

In response to the FASB 125, many participants in the repurchase market, with the assistance of the Bond Market Association, have adopted amendments to their master repurchase agreements that contain a provision that grants to the seller a right of substitution or termination. Pursuant to such provisions, if a buyer rejects a seller's attempt to substitute collateral, the seller has a right to terminate the repurchase agreement. If the seller exercises its right of termination, it must pay the buyer its costs (e.g., to enter into

a replacement transaction and to terminate hedging transactions or related transactions with third parties) and any losses incurred. These provisions will provide the seller with effective control over the securities used as collateral and therefore will mitigate the impact of FASB 125.

While incorporation of this amendment is optional, DCC believes that many of its participants will use agreements that contain this new substitution and termination provision beginning January 1, 1998. Therefore, DCC is proposing to amend its rules and procedures to recognize the use of agreements that contain this substitution and termination provision and to clarify DCC's existing notice requirements involved in the exercise of the right of substitution and termination pursuant to such provisions.

Pursuant to DCC's procedures, if the buyer elects not to accept the substitute collateral, it must notify DCC by the close of the business day unless the notice of substitution was given by the seller after 10:15 a.m., in which case the buyer must notify DCC prior to the close of business on the next business day. With the notice of rejection, the buyer must provide to DCC its calculation of the expenses that it will incur as a result of the termination of the transaction. If the seller exercises its right of termination, the seller must pay DCC the buyer's computation of expenses by the close of the business day on the day of termination.

DCC believes the proposed rule change is consistent with the requirements of Section 17A of the Exchange Act³ and the rules and regulations promulgated thereunder because the proposed rule change will clarify procedures with respect to substitution and termination.

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

DCC does not believe that the proposed rule change will impact or impose a burden on competition.

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

Written comments were neither solicited nor received.

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

The foregoing rule change has become effective pursuant to Section

⁹ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1).

² The Commission has modified such summaries.

³ 15 U.S.C. 78q-1.