

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

Within 35 days of the date of 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 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. 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 in the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organizations. All submissions should refer to File No. SR-CBOE-96-15 and should be submitted by April 29, 1996.

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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[Release No. 34-37051; File No. SR-CBOE-96-20]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by Chicago Board Options Exchange, Incorporated Relating to FLEX Equity Options

March 29, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, 15 U.S.C. 78s(b)(1), notice is hereby given that on March 18, 1996, 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 the 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 amend certain rules pertaining to FLEX Equity Options. 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 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

The Exchange proposes to amend two rules pertaining to FLEX Equity Options. First, the Exchange proposes to amend Interpretation and Policy .05 under Exchange Rule 5.5 in order to provide that new series of FLEX Equity options may be opened during the month in which they will expire, so long as options of that series expire no earlier than the day following the day the series is added. The Exchange believes that this will provide maximum flexibility to users of FLEX Equity Options, while avoiding the administrative costs that would be

associated with options that expire on the day they are issued.

Second, the Exchange proposes to amend Rule 24A.5(e) in order to provide a minimum right of participation to Exchange members who initiate Requests for Quotes in respect of FLEX Equity Options and indicate an intention to cross or act as principal on the trade, similar to the right of participation that applies under existing Exchange rules in respect of FLEX Index Options. Under existing Rule 24A.5(e)(iii), a member who submits a Request for Quotes in respect of a FLEX Index Option and indicates an intention to cross or act as principal on the trade, and who matches the current best bid or offer ("BBO") during the BBO Improvement Interval, has priority to execute the contra side of the trade up to the greater of (i) one-half of the trade, (ii) \$1 million Underlying Equivalent Value, or (iii) the remaining Underlying Equivalent Value on a closing transaction valued at less than \$1 million. If the member improves the BBO and any other FLEX-participating member matches the improved BBO, the submitting member has priority to execute the contra side of the trade up to the greater of (i) two-thirds of the trade, (ii) \$1 million Underlying Equivalent Value, or (iii) the remaining Underlying Equivalent Value on a closing transaction valued at less than \$1 million. By contrast, under current Exchange rules no priority right of participation in a principal or agency cross is given to a member who submits a Request for Quotes in respect of a FLEX Equity Option, even if the submitting member matches or improves the BBO.

The proposed rule change would provide that a member who submits a Request for Quotes in respect of a FLEX Equity Option and indicates an intention to cross or act as principal on the trade, and who matches or improves the BBO during the BBO Improvement Interval, has a priority right to execute the contra side of the trade for at least twenty-five percent (25%) of the trade.<sup>1</sup> The Exchange believes that the proposed rule change will encourage members to bring FLEX Equity Option orders to CBOE and to commit their capital to the FLEX Equity Options market on CBOE, and thereby contribute to the liquidity of that market, by

<sup>1</sup> The proposed rule change amends the language of Rule 24A.5(e) to state that a submitting member will "have priority" to execute the specified share of a trade, instead of that he will "be permitted" to execute that share, in order to clarify that a member may cross more than the designated share as to which he has priority if no one else is willing to trade at the same or a better price.

<sup>5</sup> 17 CFR 200.30-3(a)(12) (1994).

guaranteeing them a minimum right of participation in the other side of any trade they bring to the market if they are prepared to match or improve the BBO.

The Exchange believes that by providing investors with the flexibility to request quotes for options that expire as early as the day following the day they are issued, and by encouraging members to submit requests for quotes in FLEX Equity Options and to commit capital to CBOE's FLEX Equity Option market, the proposed rule change furthers the objectives of Section 6(b)(5) of the Securities Exchange Act of 1934 to remove impediments to and perfect the mechanism of a free and open market in securities, 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.

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(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. 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 in the Commission's Public Reference Section, 450 Fifth Street NW., Washington, DC 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-96-20 and should be submitted by April 29, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>2</sup>

Margaret H. McFarland,  
*Deputy Secretary.*

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[Release No. 34-37054; File No. SR-CHX-96-10]

**Self-Regulatory Organizations; The Chicago Stock Exchange Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Clearing Support and Other Fees**

April 1, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934<sup>1</sup> ("Act"), notice is hereby given that on February 29, 1996, the Chicago Stock Exchange, Incorporated ("CHX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-CHX-96-10) as described in Items I, II, and III below, which items have been prepared primarily by the CHX. The CHX supplemented the filing on March 18, 1996, to clarify and to provide additional detail to the original filing.<sup>2</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 CHX proposes to amend its Membership Dues and Fees Schedule by deleting the P&L System report fee and by adding new clearing support fees which pertain to certain additional services that the CHX will provide to its floor members and member organizations as a result of Midwest

Clearing Corporation's ("MCC") withdrawal from the securities clearing business.<sup>3</sup>

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

In its filing with the Commission, CHX 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. CHX has prepared summaries, set forth in section (A), (B), and (C) below, of the most significant aspects of such statements.<sup>4</sup>

*(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change*

The primary purpose of the proposed rule change is to delete from the CHX's Membership Dues and Fees schedule the P&L System report fees and to institute new clearing support fees. The new fees will be charged in connection with certain additional services that the CHX will provide to floor members and member organizations as a result of the MCC's withdrawal from the securities clearing business. The clearing support fees are applicable to all members and member organizations that have entered into an agency agreement with the CHX pursuant to Article XXI, Rule 13 of the CHX's rules. The agency agreements will authorize the CHX to perform various functions on behalf of such a member, including, among other things, (i) drawing upon and depositing to such member's bank account, (ii) borrowing of securities and providing reports and records for such member, and (iii) performing special cashiering functions for such member. The two categories of clearing support fees are account fees and CUSIP fees, which will compensate the CHX for its time and effort in providing these agency services.

Account fees include a fee for (i) a master account, (ii) each additional master account, and (iii) each sub-account. Each firm that enters into an agency agreement must establish a master account and a sub-account. In addition, firms may have additional master accounts or sub-accounts. The interest in maintaining more than one

<sup>2</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> Letter from George T. Simon Foley & Lardner [counsel to CHX], to Glenn Barrentine, Senior Attorney, Division of Market Regulation, Commission (March 25, 1995).

<sup>3</sup> For a discussion of MCC's withdrawal from the securities clearing business, refer to Securities Exchange Act Release No. 36684 (January 5, 1996), 61 FR 1195 [File No. SR-MCC-95-04] (order approving proposed rule change).

<sup>4</sup> The Commission has modified the text of the summaries prepared by CHX.