

seeking to cross a public customer FLEX Equity Option order, such that the Submitting Member will be permitted to execute the contra side of the trade that is the subject of the Request for Quotes, to the extent of at least 25% of the trade under specific circumstances; and (3) include subparagraph (c) to Rule 909G to indicate the FLEX Equity Options specialists must comply with Rules 171 and 950(h) regarding equity option specialist's financial requirements. The Commission does not believe that the amendments raise any new or unique regulatory issues. These amendments also strengthen the proposal by clarifying certain crossing transaction procedures and specialists financial requirements as described above. Accordingly, the Commission believes, consistent with Section 6(b)(5) of the Act, that good cause exists, to approve Amendment No. 2 to the proposal on an accelerated basis.

The Commission finds good cause for approving Amendment No. 3 prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. Specifically, this amendment proposes to amend Rule 903G(a)(3) to make it clear that bids and offers responsive to FLEX Requests for Quotes must be stated in terms of the designated currency in the Request for Quotes. The Commission notes that the proposed amendment conforms Amex's rules to CBOE's rules regarding the trading and settlement of FLEX Index Options in certain designated foreign currencies. The Commission does not believe that the amendment raises any new or unique regulatory issues. Accordingly, the Commission believes, consistent with Section 6(b)(5) of the Act, that good cause exists, to approve Amendment No. 2 to the proposal on an accelerated basis.

Interested persons are invited to submit written data, views and arguments concerning Amendment Nos. 2 and 3 to the proposed rule change. 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 Exchange. All submissions should refer to SR-Amex-95-57 and should be submitted by July 18, 1996.

V. Conclusion

For the reasons discussed above, the Commission finds that the proposal is consistent with the Act and Sections 6 and 11(a) of the Act in particular. In addition, the Commission finds pursuant to Rule 9b-1 under the Act, that FLEX Options, including FLEX Equity Options, and FLEX Index Options traded and settled in certain designated foreign currencies, are standardized options for purposes of the options disclosure framework established under Rule 9b-1 of the Act.³⁴ Apart from the flexibility with respect to strike prices, expiration dates, exercise styles, and settlement (for FLEX Index Options), all of the other terms of FLEX Options are standardized pursuant to OCC and Amex rules. Standardized terms include matters such as exercise procedures, contract adjustments, time of issuance, effect of closing transactions, restrictions on exercise under OCC rules, margin requirements, and other matters pertaining to the rights and obligations of holders and writers.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,³⁵ that the proposal (File No. SR-Amex-95-57), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³⁶

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-37337; File No. SR-CBOE-96-20]

Self-Regulatory Organizations; Order Approving a Proposed Rule Change by the Chicago Board Options Exchange, Incorporated, Relating to FLEX Equity Options

June 19, 1996.

I. Introduction

On March 18, 1996, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed a proposed rule change with the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² to amend certain rules pertaining to FLEX Equity Options.

Notice of the proposal was published for comment and appeared in the Federal Register on April 8, 1996.³ No comment letters were received on the proposed rule change. This order approves the Exchange's proposal.

II. Description of the Proposal

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

³⁴ 17 CFR 240.9b-1(a)(4). As part of the original approval process of the FLEX Options framework, the Commission delegated to the Director of the Division of Market Regulation the authority to authorize the issuance of orders designating securities as "standardized options" pursuant to Rule 9b-1(a)(4) under the Act. See Securities Exchange Act Release No. 31911 (February 23, 1993), 58 FR 11792 (March 1, 1993).

³⁵ 15 U.S.C. 78s(b)(2).

³⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 37051 (March 29, 1996), 61 FR 15543.

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.⁴ 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 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 Act to remove impediments to and perfect the mechanism of a free and open market in securities, and to protect investors and the public interest.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of Section 6(b)(5) of the Act.⁵ The Commission believes that the Exchange's proposal to provide that new series of FLEX Equity Options may be opened so long as they do not expire on the same day, reasonably addresses the Exchange's desire to meet the demands of sophisticated portfolio managers and other institutional investors who are increasingly using the OTC market in order to satisfy their hedging needs. In this regard, the change will provide FLEX Equity Option users with more flexibility in establishing expiration dates to better meet their hedging needs. Market participants wanting to open a new series of FLEX Equity Options with a short duration will still have to meet the 250 contract minimum requirement. This should help to ensure that such FLEX Equity Options are opened for legitimate trading needs.

The Commission further notes that expiration of FLEX Equity Options may not correspond to the normal expiration of Non-FLEX Equity Options. More specifically, the expiration date of a FLEX Equity Option may not occur on a day that is on, or within, two business days of the expiration date of a Non-FLEX Equity Option.⁶ Moreover, as stated in the FLEX Equity Option Approval Order, the Commission expects the Exchange to take prompt action (including timely communication with the self-regulatory organizations responsible for oversight of trading in the underlying securities) should any unusual market effects develop.⁷

Additionally, the Commission believes that the Exchange's proposal to provide a minimum right of participation of at least 25% of the trade 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, is consistent with the Act. In addition, under CBOE rules, such transactions must, in all cases, be in compliance with the priority, parity, and precedence requirements of Section 11(a) of the Act,⁸ and Rule 11a1-1(T)⁹ promulgated thereunder. These

provisions set forth, among other things, the conditions in which members must yield priority to public customers' bids and offers at the same price.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁰ that the proposed rule change (File No. SR-CBOE-96-20) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority,¹¹

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-37338; File No. SR-CBOE-96-28]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by Chicago Board Options Exchange, Incorporated Relating to the Selection of Underlying Securities on Which FLEX Equity Options May Be Traded on the Exchange

June 19, 1996

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on April 22, 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 and II 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 Exchange proposes to amend CBOE Rule 24A.4(c)(1) governing the selection of underlying securities on which FLEX Equity Options may be traded on the Exchange to eliminate the requirement that the underlying securities must be the subject of Non-FLEX Equity Option trading on the Exchange.

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

⁴ 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.

⁵ 15 U.S.C. 78f(b)(5).

⁶ See Securities Exchange Act Release No. 36841 (February 14, 1996) (File No. SR-CBOE-95-43) ("FLEX Equity Option Approval Order").

⁷ *Id.*

⁸ 15 U.S.C. 78k(a).

⁹ 17 CFR 240.11a1-1(T).

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ 17 CFR 200.30-3(a)(12).