

deemed pertinent by GSCC and must acknowledge that GSCC may share this information with the Commission. In addition, GSCC will expect a foreign entity to prepare and provide to GSCC information to the form of unaudited financials sufficient for GSCC to monitor and assess the entity's financial condition on no less than a quarterly basis.

### 5. Physical Presence

With respect to a foreign netting member's physical presence in the U.S., GSCC will require every foreign entity to maintain an office in the U.S. either directly or through a suitable agent that (i) has available individuals fluent in English who are knowledgeable about the entity's business and can assist GSCC representatives as necessary and (ii) ensures that the foreign member can meet its data submission and settlement obligations to GSCC.

## II. Discussion

Section 17A(b)(3)(F)<sup>5</sup> of the Act requires that the rules of a clearing agency be designed to facilitate the prompt and accurate clearance and settlement of securities transactions. The Commission believes GSCC's proposed rule change is consistent with the requirements of section 17A(b)(3)(F) because by permitting foreign entities, which are significant participants in the government securities marketplace and which actively trade with many current netting members, to become members of GSCC's netting system, the proposal will enable GSCC to extend the benefits of its netting and risk management processes to a broader segment of government securities market participants and will enable GSCC to extend those benefits to current members in their trades with foreign entity counterparties. Thus, a greater percentage of transactions in government securities should be settled through the national clearance and settlement system, which should help facilitate prompt and accurate clearance and settlement of government securities transactions.

Section 17A(b)(3)(f) also requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. The Commission believes that GSCC's rules adequately take into account the unique risks raised by the admission of foreign entities. Specifically, by requiring a foreign netting member to execute the Agreement and submit an Opinion,

GSCC's proposal should help ensure that a foreign netting member can adhere to GSCC's rules and that jurisdictional issues will not impede the exercise of GSCC's rights and remedies, including, among other things, GSCC's ability to serve process on a foreign netting member, against a foreign netting member.

The proposed rule change also takes into account GSCC's need to obtain information about the foreign member in order to adequately assess risk and to ensure compliance with GSCC's rules. The Agreement and Opinion facilitate GSCC's ability to obtain from foreign members financial and/or trading activity information which GSCC deems pertinent. Foreign applicants to and members of either the comparison-only or netting systems must provide GSCC with all material regulatory filings submitted to their home country regulator and with audited financial statements. The requirement that a foreign netting applicant's home country regulator must have entered into a memorandum of understanding with the Commission regarding exchange of information should help to ensure that the Commission has the ability to obtain appropriate information on foreign netting members. To further reduce potential risk arising from the absence of domestic regulatory oversight of foreign applicants, the proposed rule change requires that a foreign entity must be in compliance with the financial and reporting standards of its home country and that it must be regulated in its home country in a manner that is comparable to the regulation of domestic netting members.

To further guard against the potential risks posed by foreign netting members, the proposed rule change requires that every foreign netting member maintain an office in the U.S. that will ensure that the foreign member can meet its data submission and settlement obligations to GSCC. Such an office must have employees who are fluent in English and knowledgeable about the entity's business. Thus, GSCC will have an appropriate contact person readily available in event of an emergency situation.

The Commission believes that the foregoing conditions should help GSCC ensure that foreign netting members are subject to appropriate legal, financial, and information sharing requirements, that they are regulated in a manner comparable to other GSCC members, and that they maintain a physical presence in the United States. As a result, the proposed rule change should help GSCC to assure the safeguarding of securities and funds which are in its

custody or control or for which it is responsible with the expansion of its services to foreign netting members.

## III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular Section 17A of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-GSCC-95-05) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>6</sup>

Margaret H. McFarland,  
Deputy Secretary.

[FR Doc. 96-2406 Filed 2-5-96; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-36786; File No. SR-CBOE-96-04]

## Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated, Relating to the Listing and Trading of Options on the CBOE Internet Index

January 29, 1996.

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 January 19, 1996, the Chicago Board Options Exchange, Incorporated filed with the Securities and Exchange Commission the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. 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 Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") proposes to list and trade options on the CBOE Internet Index ("Internet Index" or "Index"). The text of the proposed rule change is available at the Office of the Secretary, CBOE and at the Commission.

<sup>6</sup> 17 CFR 200.30-3(a)(12) (1994).

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

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

<sup>5</sup> 15 U.S.C. § 78q-1(b)(3)(F) (1988).

## 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 those statements may be examined at the places specified in Item IV below and is set forth in sections (A), (B), and (C) below.

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

The Exchange proposes to list and trade cash-settled, European-style stock index options on the CBOE Internet Index, based on shares of 15 widely held companies involved in providing Internet access services, and in the design and manufacture of software and hardware that facilitates Internet access.<sup>3</sup> The Exchange believes that options on the Index will provide investors with a low-cost means to participate in the performance of this sector or to hedge against the risk of investing in this sector.

All of the stocks comprising the Index are U.S. securities and currently trade on the New York Stock Exchange ("NYSE") or through the facilities of the National Association of Securities Dealers Automated Quotation System and are reported national market system securities ("NASDAQ/NMS"). Additionally, all of the stocks are "reported securities" as defined in Rule 11Aa3-1 under the Exchange Act. The Exchange is filing this proposal pursuant to the generic criteria for listing options on narrow-based indexes as set forth in Exchange Rule 24.2 and the Commission's order approving that Rule (the "Generic Index Approval Order")<sup>4</sup> as outlined below. In accordance with Rule 24.2, CBOE proposes to list and trade options on the Internet Index beginning 30 days from the filing date of this proposed rule change.

### Eligibility Standards for Index Components

Pursuant to Rule 24.2, all of the component securities of the Index are listed on the NYSE or are NASDAQ/NMS listed, and each of the stocks in the Index has a minimum market capitalization of at least 75 million. Specifically, the stocks comprising the Index range in capitalization from \$325 million to \$20.25 billion as of December 29, 1995. The total capitalization as of that date was \$66.27 billion. The mean capitalization was \$4.42 billion. The median capitalization was \$1.90 billion.

Additionally, the average monthly trading volume for each of the component stocks in the Index have had monthly trading volume well in excess of 1 million shares over the six month period through December of 1995. The average monthly volumes for these stocks over the six month period ranged from a low of 6.93 million shares to a high of 141.32 million shares.

Netscape Communications Corp., however, does not meet the monthly trading volume criteria, because it was the subject of an initial public offering on August 9, 1995 and accordingly, has not yet accumulated at least six months of trading volume data. Since that time, Netscape trading volume has averaged 16.47 million shares per month. Currently, two of the fifteen stocks in the Index are not eligible for options trading because they do not have 7,000,000 outstanding shares owned by persons other than those required to report their stock holding under Section 16(a) of the Act. The Exchange represents that Netscape Communications Corp. will be options eligible on or before February 6, 1996, at which time the Index will have only one component (Spyglass Inc.), equally 6.67% of the Index, that is not eligible for options trading. Thus, at the time the Index is listed for options trading, 93.33% of the weight of the Index and 93.33% of the number of components will be eligible for options trading.

### Index Design and Calculation

The Index is equal-dollar weighted, with each stock comprising 6.67% of the total Index weight. The top 5 stocks in the Index account for 33.33% of the Index. The Index reflects changes in the prices of the component stocks relative to the Index base data, August 9, 1995 with the Index was set to 100.00. Specifically, each of the component securities is initially represented in equal dollar amounts, with the level of the Index equal to the combined market

value of the assigned number of shares for each of the Index components divided by the current Index divisor. The Index divisor is adjusted to maintain continuity in the Index at the time of certain types of changes. Changes which may result in divisor changes include, but are not limited to, quarterly re-balancing, special dividends, spin-offs, certain rights issuances, and mergers and acquisitions.

The Index will be calculated on a real-time basis using last-sale prices by CBOE or its designee, and will be disseminated every 15 seconds by CBOE. If a component stock is not currently being traded, the most recent price at which the stock traded will be used in the Index calculation. The value of the Index at the close of trading on December 29, 1995 was 144.57.

### Maintenance of the Index

The Index will be maintained by CBOE. The Index is re-balanced after the class of business on Expiration Fridays on the March Quarterly Cycle. In addition, the Index is reviewed on approximately a monthly basis by the CBOE staff. CBOE may change the composition of the Index at any time to reflect changes affecting the components of the Index or the Internet industry generally. If it becomes necessary to remove a stock from the Index (for example, because of a takeover or merger), CBOE will only add a stock having the maintenance criteria specified in CBOE's Rules and the Generic Index Approval Order. CBOE will take into account the capitalization, liquidity, volatility and name recognition of any proposed replacement stock.

Agstent prior Commission approval, CBOE will not increase to more than 20, or decrease to fewer than 10, the number of stocks in the Index. In addition, the CBOE will not make any change in the composition of the Index would cause fewer than 90% of the stocks by weight, or fewer than 80% of the total number of stocks in the index, to qualify as stock eligibility for equity options trading under CBOE Rule 5.3.

If the Index fails at any time to satisfy the maintenance criteria, the Exchange will immediately notify the Commission of that fact and will not open trading any additional series of options on the Index unless such failure is determined by the Exchange not to be significant and the Commission concurs that determination, or unless the continued listing of options on the Internet Index has been approved by the Commission under Section 19(b)(2) of the Act.

<sup>3</sup> The component securities of the Index are America Online Inc.; Cisco Systems Inc.; H&R Block (Compuserve); McAfee Associates Inc.; Microcom Inc.; Netcom On-Line Communication Svcs.; NetManage Inc.; Netscape Communications Corp.; Oracle Corporation; Psinet Inc.; Quarterdeck Office Systems Inc.; Silicon Graphics Inc.; Spyglass Inc.; Sun Microsystems Inc.; UUnet Technologies Inc.

<sup>4</sup> See Securities Exchange Act Release No. 34157 (June 3, 1994), 59 FR 30062 (June 10, 1994) ("Generic Index Approval Order").

### *Expiration and Settlement*

Internet Index options will have European-style exercise (i.e., exercises are permitted at expiration only), and will be "A.M.-settled index options" within the meaning of the Rules in Chapter XXIV, including Rule 24.9, which is being amended to refer specifically to Internet Index options. In the case of securities traded through the NASDAQ system, the first reported regular way sale price will be used. The proposed options will expire on the Saturday following the third Friday of the expiration month. Thus, the last day for trading in a expiring series will be the second business day (ordinarily a Thursday) preceding the expiration date. If any component stock does not open for trading on its primary market on the last trading day before expiration, then the prior day's last sale price will be used in the calculation.

The exchange proposes to base trading in options on the Internet Index on the full value of that Index. The Exchange may list full-value long-term index option series ("LEAPS®"), as provided in Rule 24.9. The Exchange also may provide for the listing of reduced-value LEAPS, for which the underlying value would be computed at one-tenth of the value of the Index. The current and closing index value of any such reduced-value LEAP will, after such initial computation, be rounded to the nearest one-hundredth.

### *Exchange Rules Applicable to Stock Index Options*

Except as modified herein, the Rules in Chapter XXIV will be applicable to Internet Index options. These Rules cover issues such as surveillance, exercise prices, and position limits. Index option contracts based on the Internet Index will be subject to the position limit requirements of Rule 24.4A. Currently the position limit is 12,000 contracts. Ten reduced-value options will equal one full-value contract for such purposes. Surveillance procedures currently used to monitor trading in each of the Exchange's other index options will also be used to monitor trading in options on the Internet Index.

CBOE represents that it has the necessary systems capacity to support new series that would result from the introduction of Internet Index options. CBOE has also been informed that OPRA has the capacity to support such new series.<sup>5</sup>

<sup>5</sup> See Memorandum from Joe Corrigan, Executive Director, OPRA, to Tom Knorrning, CBOE, dated January 18, 1996.

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act") in general and furthers the objectives of Section 6(b)(5) in particular in that it will permit trading in options based on the Internet Index 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*

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

Because the foregoing rule change complies with the standards set forth in the Generic Index Approval Order, it has become effective pursuant to Section 19(b)(3)(A) of the Act. Pursuant to the Generic Index Approval Order,<sup>6</sup> the Exchange may not list CBOE Internet Index options for trading prior to 30 days after January 19, 1996, the date the proposed rule change was filed with the Commission. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

### 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. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to File No. SR-CBOE-96-04 and should be submitted by February 27, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96-2405 Filed 2-5-96; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-36795; File No. SR-NASD-95-60]

### **Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Order Granting Accelerated Temporary Approval of Proposed Rule Change To Extend Certain SOES Rules Through July 31, 1996**

January 31, 1996.

#### I. Introduction

On December 19, 1995, the National Association of Securities Dealers, Inc. ("NASD" or "Association") filed with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change 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> The NASD proposes to extend through July 31, 1996 certain changes to its Small Order Execution System ("SOES") that were originally implemented in January 1994 for a one-year pilot period ("January 1994 Amended SOES Rules").<sup>3</sup> These rules

<sup>7</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> Securities Exchange Act Release No. 33377 (Dec. 23, 1993), 58 FR 69419 (Dec. 30, 1993) (approving the Interim SOES Rules on one-year pilot basis effective January 7, 1994). See also Securities Exchange Act Release No. 33424 (Jan. 5, 1994) (order denying stay and granting interim stay through January 25, 1994) and Securities Exchange Act Release No. 33635 (Feb. 17, 1994) (order denying renewed application for stay).

The changes contained in the January 1994 Amended SOES Rules were as follows:

(1) A reduction in the maximum size order eligible for SOES execution from 1,000 shares to 500 shares;

<sup>6</sup> See Generic Index Approval Order, *supra* note 4.